

1 UNITED STATES BANKRUPTCY COURT  
2 SOUTHERN DISTRICT OF NEW YORK  
3 CASE NO. 19-23649-rdd

5 | In the Matter of:

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7 PURDUE PHARMA L.P., ET AL.

8

## 9 | Debtors.

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17 | October 10, 2019

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22 | B E F O R E :

23 HON. ROBERT D. BRATN

24 U.S. BANKRUPTCY JUDGE

25 ECHO: NAROTAM BAT

1 HEARING Re Notice of Agenda for Second Day Hearing  
2  
3 HEARING Re Motion of Debtors for Entry of an Order  
4 Authorizing (I) Debtors to (A) Pay Prepetition Wages,  
5 Salaries, Employee Benefits and Other Compensation and (B)  
6 Maintain Employee benefits Programs and Pay Related  
7 Administrative Obligations, (II) Employees and Retirees to  
8 Proceed with Outstanding Workers' Compensation Claims and  
9 (III) Financial Institutions to Honor and Process Related  
10 Checks and Transfers (ECF 6)  
11  
12 HEARING Re Object of UST (ECF 134)  
13  
14 HEARING Re Nevada Counties and Municipalities' Joinder to  
15 the Objection of UST (ECF 190)  
16  
17 HEARING Re The Commonwealth of Pennsylvania's Joinder to the  
18 Objection of the UST (ECF 190)  
19  
20 HEARING Re Joinder/Objection of the AdHoc Group of Non-  
21 consent States (ECF 197)  
22  
23 HEARING Re Joinder of the State of Arizona to the Objection  
24 of the UST (ECF 201)  
25

1 HEARING Re Letter of Linda A. Lacewell, Superintendent of  
2 New York State Department of Financial Service Re: Request  
3 Payments to Purdue Pharma Employees (ECF 99)

4

5 HEARING Re Motion of Debtors for entry of Interim and Final  
6 Orders Authorizing (I) Debtors to Pay Certain Prepetition  
7 Taxes, Governmental Assessments and Fees and (II) Financial  
8 Institutions to Honor and Process Related Checks and  
9 Transfers (ECF 8)

10

11 HEARING Re Motion of Debtors for Entry of Interim and Final  
12 Orders Authorizing (I) the Debtors to Continue and Renew  
13 Their Liability, Property, Casualty and Other Insurance  
14 Policies and Honor all Obligations in Respect Thereof and  
15 (II) Financial Institutions to Honor and Process Related  
16 checks and Transfers (ECF 10)

17

18 HEARING Re Motion of Debtors for Entry of Interim and Final  
19 Orders Authorizing the Debtors to Continue and Renew Surety  
20 Bond Program (ECF 12)

21

22 HEARING Re Motion of Debtors for Entry of Interim and Final  
23 Orders (I) prohibiting Utilities From Altering, Refusing or  
24 Discontinuing Service, (II) Deeming Utilities Adequately  
25 Assured of Future Performance and (III) Establishing

1 Procedures for Determining Requests for Additional Adequate  
2 Assurance (ECF 7)

3

4 HEARING Re Motion of Debtors for Entry of Interim and Final  
5 Orders Authorizing (I) Debtors to Honor Prepetition  
6 Obligations to Customers and Related Third Parties and to  
7 Otherwise Continue Customer Programs (II) Relief from Stay  
8 to Permit Setoff in Connection with the Customers and  
9 Programs and (III) Financial Institutions to Honor and  
10 Process Related Checks and Transfer (ECF 11)

11

12 HEARING Re Motion of Debtors for Entry of Interim and Final  
13 Orders Authorizing (I) Payment of Certain Prepetition Claims  
14 of Critical Vendors and (II) Financial Institutions to Honor  
15 and Process Related Checks and Transfers (ECF 9)

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1 | P R O C E E D I N G S

2 THE COURT: Okay. Good morning. In Re Purdue  
3 Pharma L.P., et al.

4 MR. HUEBNER: Good morning, Your Honor, may I  
5 proceed?

6 THE COURT: Sure.

7 MR. HUEBNER: May it please the Court, Your Honor,  
8 I am Marshall Huebner of Davis Polk & Wardwell LLP on behalf  
9 of the 24 Purdue debtors.

10 Your Honor, as we promised you at the first day  
11 hearing we would and will work around the clock whenever  
12 possible to settle and progress things with actual and  
13 potential objectors and stakeholders in advance of these  
14 Chapter 11 cases.

15                   We will do so in service of our other pledge, to  
16                   do that work and service of Chapter 11's two core  
17                   objectives, maximization of value and appropriate  
18                   distribution of that value to stakeholders.

19 For what it's worth, the last four weeks have been  
20 just about the most demanding and unceasing of my career,  
21 even taken into account the financial crisis. Our calls and  
22 interactions with various creditor constituencies day after  
23 day often started at 7 a.m. and ended at or after 1 a.m.

With that said, I'm happy to report that these efforts of many parties are bearing important fruit. Three

1 days ago after a week of around the clock work, we reached  
2 agreement on a summary term sheet with an ad hoc group of  
3 supporting creditors which includes the 23 states and  
4 territories, including Puerto Rico, the MDL PEC and Coby  
5 plaintiffs and the shareholders.

6 The term sheet was agreed to Monday night and  
7 filed on the docket Tuesday, and puts substantially more  
8 meat on the bones for all to see, in the general framework  
9 that I was able to describe at the first day hearing.

10 We are not at this time moving for any formal  
11 Court authority with respect to this term sheet, but it is  
12 an important milestone that we have tried partied agreement  
13 as to its form and content.

14 To be sure there is much more work to do on all  
15 sides, including of course, with respect to the newly formed  
16 UCC, before we would be ready to proceed through gate three  
17 with an RSA.

18 The term sheet itself contains much more detail  
19 about the essential elements of the framework that I  
20 described to the Court on the first day. The entirety of  
21 the debtors will be transferred to claimants without the  
22 need for litigation, about either solvency or liability.

23 The ultimate goals remains the same, for the  
24 exceedingly valuable medical, scientific and financial  
25 assets of these 24 companies, billions of dollars' worth to

1 be turned exclusively towards the public good instead of  
2 being relentlessly destroyed by litigation.

3 With respect to shareholders as the world can now  
4 see, they are agreeing to exit their opioid businesses, not  
5 only in the United States but worldwide. And to tender to  
6 this bankruptcy estate nearly all and possibly even all of  
7 the net proceeds from the sale of these worldwide family  
8 owned pharmaceutical businesses known as IACs.

9 There's a minimum guaranteed shareholder  
10 contribution of \$3 billion, even if these businesses sell  
11 for nothing. After 3 billion in net proceeds has been  
12 realized there's a 90/10 split in favor of the estate until  
13 the estate has received another \$1.5 billion.

14 The 10 percent shareholder sliver interest of net  
15 proceeds between 3 billion and 4.6 billion was supported by  
16 the plaintiffs to incentivize the Sacklers to maximize the  
17 estate's recovery. But to be clear it is not very much.

18 For example, if the net proceeds turned over are 3  
19 billion, the shareholders get zero. If the estate gets 4  
20 billion of net proceeds, the shareholders get 100 million or  
21 2.4 percent of the total and the estate gets 97.6 percent of  
22 the total. Then once the estate has gotten \$4.5 billion  
23 there's a 50/50 split of all additional net proceeds in  
24 whatever amount.

25 Thus while there's a committed minimum

1 contribution of \$3 billion, in addition, of course, to the  
2 voluntary give up of the Purdue companies, which themselves  
3 are worth billions of dollars, the ultimate incremental cash  
4 payment to the estate could end up being 3, 4, 5 billion or  
5 some other number depending on the overseas sales.

6                   Indeed, the lead representative for a major state  
7 that is currently opposing the deal represented that the  
8 shareholders overseas businesses are worth \$9 billion.

9                   Assuming the effective tax rate of 25 percent for  
10 illustrative purposes, the estate would realize almost \$6  
11 billion in incremental proceeds at those value levels. To  
12 be clear, I am not sure that valuation is lively shared, but  
13 it would be great if it were true.

14                  The term sheets contains a great many other  
15 things, I will mention a few of the most salient for the  
16 benefit of the parties and the Court and on the phone.

17                  As to the debtors, that obligates us to move  
18 promptly for Court approval to pay the professional fees of  
19 the ad hoc group, of course, on a proper motion on notice.

20                  We think of this as similar to a restructuring  
21 support agreement provision, but it is a fortiori as in this  
22 unusual case, the vast majority of our litigation claimants,  
23 about 85 or 86 percent of them, in fact, were deemed  
24 ineligible by the United States Trustee to serve on the  
25 official committee, as we discussed on the first day and we

1 decided not to pick a fight on that issue.

2 The term sheet also makes clear that the  
3 reorganized entity will be designed in partnership with  
4 (indiscernible) representatives, and the current shareholder  
5 will have no role, no voice, no vote, no ownership, and no  
6 involvement in the post emergent entities, none.

7 The directors and trustees, if that's the  
8 structure we end up going with, will be selected exclusively  
9 by creditor representatives. As discussed on the first day,  
10 the goal is to maximize the value of these very material  
11 companies and make sure that the area is exclusively for the  
12 public good, in the hands chosen by creditors and approved  
13 by this Court.

14 Moreover, Your Honor, although the gravamen of the  
15 lawsuits is the past conduct that has long since ceased and  
16 OxyContin remains an FDA approved product that continues to  
17 be prescribed to hundreds of thousands of Americans and  
18 reimbursed by at least 43 states and the federal government.  
19 A small set of stakeholders seems to have expressed inherent  
20 concerns about the product itself. There are elements in  
21 the structure that are designed to address that as well.

22 So, Your Honor, while there are many conversations  
23 ahead, of this I have no doubt, this is our current best  
24 proposal for meeting several critical goals at the same  
25 time, including of course maximizing the value of these

1 sizeable estates for the claimants and for the American  
2 people.

3 I should also note since many people and many news  
4 articles are asking and referring to the fact that this not  
5 be like the tobacco settlement, where the money apparently  
6 did not go to address the crisis at hand. That our goal, as  
7 set forth in the term sheet expressly is that the  
8 reorganized entity be required to deploy its assets to  
9 address the opioid crisis.

10 And as even the cursory review of the document  
11 makes clear, the shareholders will be providing substantial  
12 diligence to the ad hoc committee, and presumably the  
13 official committee as well.

14 Equally important, Your Honor, since the estate  
15 and all parties need and deserve comfort that should the  
16 deal not progress, the shareholders will not have used the  
17 timing of the Chapter 11 process to be able to secrete  
18 assets. The term sheet has an exhibit exclusively devoted  
19 to asset protection provisions, that will be enshrined  
20 assuming Your Honor agrees, in an order of this court. More  
21 on that in a few minutes.

22 A second major thing we have been doing, virtually  
23 every day since it was formed, is to begin our relationship  
24 hopefully both professionally and productively with our nine  
25 member official committee of unsecured creditors. I will,

1 of course, let Mr. Priz describe who the committee is, and  
2 how they see their role in this case.

3 I will mention only one thing, the UCC's 2019  
4 statement clearly and helpfully states that it views itself  
5 as having fiduciary duties to all unsecured creditors in  
6 these cases, despite the very unusual fact that almost 90  
7 percent of our contingent creditors were deemed ineligible  
8 to serve on the creditor's committee.

9 I will tread lightly here, but I think it bears  
10 mention that this is a very unusual representation structure  
11 and will create unusual dynamics. And there are incipient  
12 result in intercreditor complexity and tensions that are  
13 already manifesting.

14 That said, from our perspective in this unusual  
15 case, with no secure debt, and where the plan structure  
16 contemplates assets going exclusively to unsecured  
17 creditors, there's an unusually substantial, although not  
18 complete overlap between the fiduciary duties of the  
19 debtors, the ultimate stewards of these estates, and the  
20 duties of the UCC whose obligations run exclusively to  
21 unsecured creditors.

22 As Your Honor knows, likely better than anyone  
23 else in this room, there are a great many things that a  
24 debtor and a UCC could already be tussling about in a case  
25 of this complexity. To both parties credit, we are pursuing

1 a better way.

2 The debtors and the UCC and in a few relevant  
3 respects, the shareholders, are very hard at work on a  
4 stipulation that provides a constructive blueprint for at a  
5 minimum the opening six months of this case. Multiple  
6 drafts have gone back and forth at extreme speed.

7 While there is still wood to chop, I am hopeful  
8 that we can reach agreement before tomorrow's hearing, and  
9 I've invited the relevant lawyers to meet in person from the  
10 very minute this hearing ends until the document hopefully  
11 is done.

12 Because these are highly confidential settlement  
13 negotiations with multiple parties, as much as I would like  
14 to, it would be wholly improper for me, or I believe anyone  
15 else, to give the Court an update on the contents of this  
16 draft stipulation or the exact status of the negotiations.

17 So for today I will have to leave it at that,  
18 except to note that there will clearly be an update tomorrow  
19 and hopefully a good one.

20 There is one thing, though that I can and should  
21 mention that is in the ad hoc committee term sheet that we  
22 had discussed with others as well including of course  
23 extensively with the UCC.

24 The debtors are cutting down the requested length  
25 of the injunction from 270 days to 180 days, despite the

Page 18

1 fact that there is a non-reducible governmental bar date  
2 governing almost all creditors in this case about 86 percent  
3 or so, there's 180 days from the petition date.

4 As I briefly mentioned before, there will be Court  
5 ordered provisions designed to ensure that the estate is not  
6 put at inappropriate risk of assets secretion or removal by  
7 shareholders during the injunction period. That period  
8 certainly should not and must not be used by any shareholder  
9 party in an attempt to make itself more judgment proof by  
10 taking actions to frustrate potential judgments.

11 As I made clear at the first day hearing, the  
12 debtors and the special committee of the board are keenly  
13 aware that under federal law they now own and are the  
14 plaintiff for all potential fraudulent transfer, preference  
15 and veil piercing actions against the shareholder parties.  
16 And that under Section 550 that potential avoidance  
17 liability attaches to many categories of transferees,  
18 including initial transferee, the entity for whose benefit  
19 any voidable transfers were made, or any intermediate or  
20 immediate transferees of the initial transferees.

21 Your Honor, there's one last issue that I think I  
22 need to address briefly before turning to the second day  
23 agenda itself, that constitutes the primary reason we are  
24 here.

25 I am, of course, not unaware that this case and

1 these debtors invoke very strong emotions and reactions, as  
2 well as seemingly ceaseless media attention. As an officer  
3 of this Court, just like the debtors themselves, very  
4 serious duties under federal law it is critical to me and to  
5 the debtors that the many parties in interest in this  
6 situation have accurate facts and not misinformation in  
7 front of them as they consider how to approach the complex  
8 situation we all face.

9 So here are four things, Your Honor, that the  
10 Court and stakeholders should know, that I probably should  
11 have laid out in my first day remarks, but I erred heavily  
12 on the side of brevity.

13 One, since at least March 2018 when Davis Polk &  
14 Wardlow was retained, Purdue has made no distributions,  
15 neither tax nor non-tax to its shareholders. The only tiny  
16 sort of exception to this flat statement is that Rhodes paid  
17 approximately \$140,000 directly to Maryland State taxing  
18 authorities in 2017 and another 70,000 in 2018, almost all  
19 of that before we became its counsel.

20 Two, in fact, the primary cash flows between  
21 Purdue and its shareholders since January 1, 2017 have been  
22 as follows. In 2017, Purdue's parent company borrowed  
23 \$312.6 million from Purdue. During 2018 and '19, every  
24 single penny, every penny of those loans was paid back with  
25 interest.

1                   Thus, in 2018 and 2019 there were only Purdue in  
2                   flows from and not out flows to the shareholders. In 2017,  
3                   there were approximately \$187 million in tax distributions  
4                   and no non-tax distributions, except for the \$199,000 that  
5                   was sent to Sliver Holding Company shareholders in  
6                   connection with a product transfer from Purdue to Rhodes.

7                   Three, moreover, while there is still work to be  
8                   done, I believe it to be true that if one looks back a full  
9                   40 years from the petition date, the grand total of all tax  
10                  and non-tax distributions to the shareholders is less than  
11                  half of the minimum \$3 billion guaranteed contribution under  
12                  the settlement reached with the ad hoc group.

13                  Four, finally Your Honor and others in the  
14                  courtroom may well have read recent media reports that one  
15                  of the Purdue depositions recently quote revealed, that over  
16                  the years more than 12 billion was distributed by Purdue to  
17                  its shareholders. Please allow me to remind the Court and  
18                  all parties here today at my first day presentation I  
19                  expressly referenced the financial transparency that we have  
20                  manifested, and more specifically that approximately one  
21                  year ago detailed presentations were given to a wide variety  
22                  of plaintiffs and governments about Purdue's financial  
23                  history.

24                  The \$12 billion number breathlessly reported in  
25                  recent days in the press is in fact not new at all. In

1 fact, the previous diligence covered in detail Purdue's  
2 transfers to its parent company during the 25 year period,  
3 25 years from 1995 to the end of 2018.

4 As set forth herein, the non-tax distributions  
5 during the 25 year period from 1995 to 2018 totaled just  
6 under \$5.9 billion. The tax distributions over this 25 year  
7 period total \$5.75 billion and non-cash distributions total  
8 approximately \$410 million. This total is about \$12.05  
9 billion since 1995 split about 52 percent non-tax and 48  
10 percent tax.

11 In the last several months, these numbers have  
12 been carefully examined in connection with something else  
13 that I referenced at the first day hearing, which is the  
14 multi-hundred page forensics report that is moving smartly  
15 towards completion and will be shared with multiple parties  
16 under appropriate confidentiality agreements.

17 One very last thing, Your Honor, before I turn  
18 over the podium to Mr. Vonnegut, I've been seeing various  
19 public statements from currently opposing government  
20 officials about the conduct of these case that requires a  
21 brief response, which I will make as briefly and as  
22 controversially as I can.

23 There is much I would dearly like to address, but  
24 today is not that day. In an editorial yesterday, one State  
25 Attorney General stated as follows, "Last month Purdue filed

Page 22

1 for bankruptcy, that's fine. Shutting down Purdue can help  
2 to end a painful chapter." And also "Unfortunately Purdue's  
3 actions suggest its less interested in closing the company  
4 than in protecting the Sacklers' billions."

5 So please allow me to be very, very clear, so  
6 there's no possibility of any mistake or any  
7 misunderstanding. These Chapter 11 proceedings were not  
8 connects to shut down Purdue or to close the company.

9 Upon filing, these 24 debtors worth billions of  
10 dollars and with critical medical, manufacturing,  
11 intellectual property and financial assets became Chapter 11  
12 estates under the U.S. Bankruptcy Code and have a federal  
13 law duty to maximize their value for all of their  
14 stakeholders and to distribute that value as required by the  
15 Bankruptcy Code. And that is what we are going to do.

16 To prepare, preserve create, as valuable a set of  
17 assets and entities and proceeds and rescue drugs as we  
18 possibly can to do the most to help claimants and America  
19 itself with the opioid crisis.

20 Second, the notion that Purdue is "protecting the  
21 Sackler billions" is as false as it is offensive. Unless of  
22 course one finishes the sentence as one needs to, with the  
23 critical missing clause. For the benefit of the estate and  
24 its claimants where many of those billions are slated to be  
25 transferred. That is the deal we have reached. To transfer

Page 23

1 an absolute minimum of \$3 billion of additional Sackler cash  
2 into the estates and hopefully much more, and to have the  
3 shareholders voluntarily but irrevocably relinquish all  
4 ownership, control, claims, and rights to the billions of  
5 dollars of value at Purdue.

6 It is the estate that is the owner of veil  
7 piercing and fraudulent transfer claims against the  
8 shareholders. And we will not allow individual litigants to  
9 helter skelter destroy that value, and to needlessly cause  
10 hundreds of millions or billions of dollars of legal fees  
11 and other costs and damage in the process that could instead  
12 go to help ameliorate the opioid crisis.

13 I will understand and have sympathy for the fact  
14 that every single one of the thousands of litigants would  
15 like to have their own day in their own chosen court on  
16 their own terms on their own schedule. But as I said at the  
17 first day hearing that creates a true tragedy of the  
18 comments since the impact of allowing that to proceed is  
19 unthinkable value destruction for all.

20 And with that, Your Honor, I would like to turn to  
21 the second day agenda which is actually largely uncontested  
22 and that's --

23 MR. SCHWARTZBERG: Your Honor?

24 MR. HUEBNER: I'm sorry. Maybe other people want  
25 to speak before we --

1                   MR. SCHWARTZBERG: May I respond to Mr. Huebner's  
2 statement?

3                   THE COURT: Briefly, yes.

4                   MR. SCHWARTZBERG: I'll be brief, Your Honor.

5                   Your Honor, Paul Schwartzberg for the U.S.

6                   Trustee's Office. I apologize for interrupting but prior to  
7 getting into the meat of today's hearing I just wanted to --  
8 I didn't want this to fall through the cracks.

9                   Mr. Huebner said a lot in his opening statement,  
10 including discussions regarding the cash distributions and  
11 transfers made by the debtor. I am completely aware and I'm  
12 sure the Court is aware of this, but those are just lawyer  
13 statements, those are just Mr. Huebner's statements. I  
14 don't know at this point if those statements have been  
15 vetted by the ad hoc committee, the regular committee, the  
16 official committee, so I just wanted that to go on the  
17 record, Your Honor, that those are Mr. Huebner's statements,  
18 the debtor's attorney's statements and not necessarily true  
19 or -- they're not facts, Your Honor, there's no evidence,  
20 there's no witness regarding that. I just wanted to state  
21 that for the record, Your Honor.

22                   MR. HUEBNER: That's actually very helpful, Your  
23 Honor. Let me be very clear. Obviously I'm not the  
24 financial forensics person. As I referenced I think both at  
25 the last hearing and actually as I was making those remarks,

1 that analysis is being done by a very large financial  
2 forensics team that is producing a massive report that will  
3 have all those facts and a great many other facts that I  
4 think are going to be of interest to the constituencies in  
5 this case. And the Court can be very, very comfortable that  
6 the ad hoc committee and the UCC and I'm sure a few others  
7 as well will have full access to those reports when they're  
8 done.

9 THE COURT: Okay.

10 MR. DIZENGOFF: Good morning, Your Honor, Ira  
11 Dizengoff, Akin Gump Strauss Hauer and Feld, we are proposed  
12 counsel for the official committee of unsecured creditors.  
13 I rise for two reasons.

14 One to tell you it's very important we're here and  
15 we have a job to do, so that's one. Two, to introduce you  
16 to my partners, Ira Priz who is sitting right next to me  
17 now, next to Marshall and Mitch Hurley. You'll hear from  
18 them very often in the case. Mr. Priz has a comment, just  
19 to give you our status on where we are and what we foresee  
20 as a -- excuse me, what we foresee happening in the next  
21 couple of days.

22 THE COURT: Okay.

23 MR. PRIZ: Good morning, Your Honor, Arik Priz  
24 from Akin Gump as proposed counsel of the official committee  
25 of unsecured creditors. Given that it's a first time

Page 26

1 appearing in front of you, Your Honor, I have some prepared  
2 remarks that I would like to make. Is that okay for me to  
3 do so?

4 THE COURT: Okay. Can I just interrupt you for a  
5 second?

6 MR. PRIZ: Yeah.

7 (Pause)

8 THE COURT: Go ahead.

9 MR. PRIZ: Let me start by saying it's an honor  
10 and privilege to represent the official committee of  
11 unsecured creditors in this case. This case and the opioid  
12 crisis in general is a nationwide problem of epic  
13 proportions that needs to be addressed, and in the  
14 opportunity to play a role, indeed any role in combatting  
15 the crisis and distributing much needed funds to state,  
16 municipalities, hospitals, personal injury victims, NAS  
17 children, health insurance carriers and others is of  
18 monumental importance to the committee, it's advisors and  
19 each of us personally.

20 With that, Your Honor, I'd like to address four  
21 items, who we are. Second, how we are approaching this  
22 case. Third, where we see this case going, and fourth, the  
23 preliminary injunction motion that is up for hearing  
24 tomorrow.

25 And on that, Your Honor, I'm obviously not

1 presenting argument, but I do want to address while we have  
2 not yet filed an objection or a statement.

3 So first who we are. As you may heard, we  
4 understand there were approximately 70 parties who sought to  
5 sit on the official creditor's committee. Of those, the  
6 Office of the United States Trustee chose just nine two  
7 weeks ago, although frankly only six working days since  
8 then.

9 Since that time, the committee has selected legal  
10 counsel. They've selected efficiency legal counsel, which  
11 is Bayard, they've selected a financial forensic advisor,  
12 which is Province and an investment banker Jeffries.

13 Last weekend we filed a Rule 2019 statement that  
14 listed the membership of the committee. As stated there,  
15 the committee is made up of the following type of claimants,  
16 two personal injury claimants Ryan Hampton and Cheryl Azura  
17 (ph), two parents, or in one case a grandparent of the  
18 children born with NAS, which is neonatal abstinence  
19 syndrome, that's Cara Trainer (ph) and Walter Lee Sammons  
20 (ph); one health insurance carrier, it's Blue Cross/Blue  
21 Shield, one private hospital, West Boca, a pension benefit  
22 guarantee corporation and two trade creditors, LTS Loan and  
23 Therapy Systems and CBS Caremark.

24 The first six -- well, you've heard Mr. Huebner  
25 describe something about our make-up. I think we need to

1 explain a little bit of this. The first six claimants are  
2 examples of what we would refer to in this case as private  
3 litigants. Private litigants include among others personal  
4 injury plaintiffs, private hospitals, private health  
5 insurance carriers, children born with NAS, both in the firm  
6 of personal injury type claims and medical monitoring  
7 claims, and a class of individuals who claim that their  
8 health insurance premiums increased as a result of the  
9 opioid crisis.

10 These private litigants are distinguishable from  
11 what we refer to as the public litigants, the DOJ, states,  
12 municipalities, cities and towns across the country, and the  
13 Native American tribes.

14 Both public and private litigants have asserted or  
15 will be asserting claims against Purdue. And in many  
16 instances, such litigants have also asserted or will assert  
17 claims against the Sacklers and other defendants.

18 The public and private litigants have, in many  
19 instances, different damages theories, different causation  
20 theories, different views about the strengths and weaknesses  
21 of their claims and the strengths and weaknesses of the  
22 claims of others.

23 These different views translate into different  
24 views as to how any proceeds received from Purdue or the  
25 Sacklers, or indeed any opioid manufacturer or distributor

1 or other defendants should be allocated. Indeed, these  
2 intercreditor issues are one of the unspoken about issues  
3 that are unfortunate byproduct of the opioid crisis that  
4 could get in the way of efforts to compensate, abate, and  
5 remediate.

6 We are very aware of these issues and we are going  
7 to do everything we can to avoid them, becoming an  
8 unnecessary and costly distraction in these cases.

9 To that end and to be clear as we stated in our  
10 2019 statement, we have a fiduciary duty, not that we intend  
11 to exercise our fiduciary, we do have a fiduciary duty and  
12 will be representing the interests of all unsecured  
13 creditors, whether they be public litigants, private  
14 litigants, trade, or general unsecured creditors.

15 And in that role, we'll be trying to among other  
16 things both increase the numerator, and we'll talk about  
17 that in a second, and settle the denominator by determining  
18 the appropriate allocation among creditors to avoid costly  
19 and time consuming litigation.

20 To that end, although a lot has been said about  
21 the U.S. Trustee's statutory decision not to place  
22 governmental entities on the official committee, the members  
23 of the committee are not themselves concerned with anything,  
24 other than their fiduciary duties to all unsecured  
25 creditors.

1                   Three final words about the membership of the  
2 official committee and then I'll move on to the second  
3 point. First, a few of our committees have been contacted  
4 directly by parties in this case, including by lawyers  
5 representing parties in this case to discuss with them their  
6 views and their roles as committee members.

7                   We would kindly ask that all parties refrain from  
8 doing so, but instead contact us as counsel of the committee  
9 or those committee members individual counsel, names of  
10 which we can provide if requested. As you can imagine, this  
11 is the first time that certain committee members that have  
12 been part of a committee and as such, they feel a little  
13 harassed by these calls. If that continues, we're going to  
14 ask this Court's assistance in enjoining these calls.

15                  THE COURT: I think that's an important point to  
16 reiterate. Serving on a committee like this is difficult  
17 enough as it is, and there should be clear lines of  
18 communication to facilitate that service. I expect in due  
19 course the committee will propose procedures consistent with  
20 the relevant Code section dealing with disclosure and the  
21 like, which are particularly important in this type of case,  
22 but to approach committee members willy nilly just is not  
23 productive and not appropriate.

24                  MR. PRIZ: Thank you, Your Honor, we appreciate  
25 that. Second, certain committee members are active in the

Page 31

1 victim rights advocacy arena. And part of their job in that  
2 arena involves talking to the press, being active on social  
3 media. As part of their services on the creditor's  
4 committee they have been asked by us and have agreed to  
5 refrain from talking to the press and being active on social  
6 media regarding this case during the pendency of this case.

7 We felt, and they agreed, that this was the  
8 appropriate course of action, and that as a committee, we  
9 would speak with one voice in a courtroom and through our  
10 pleadings.

11 The committee did not want its efforts in this  
12 case to be undermined by a perception that members of the  
13 committee are in some way trying to influence the Court  
14 through the press, or make this case into a spectacle.

15 We point this out only as a point of reference,  
16 because other parties in this case enjoy substantial press  
17 coverage, and use the press as a tool in their strategic  
18 arsenal, which they are of course permitted to do and should  
19 do as they see fit. We're not saying that.

20 The members of the committee, however, who serve  
21 all unsecured creditors and not any parochial interest will  
22 not be doing so.

23 Finally, Your Honor, a note about some of the  
24 individuals on the committee. I will be remiss if I do not  
25 mention that the individuals on the committee sought to

1 serve on the committee because they want to be part of the  
2 solution and feel deeply, strongly and personally about what  
3 has happened.

4 It bears mentioning because they of all people  
5 will be faced with difficult choices in the case, when  
6 putting aside their very strong personal feelings to  
7 exercise their fiduciary duties, which they've all committed  
8 to do so. We are honored to be representing people of such  
9 high integrity.

10 Second, how we are approaching this case. Your  
11 Honor, the way we see it and very broadly there are three  
12 main parts of this case. First, what we call the numerator,  
13 second we call the denominator; i.e., allocation to  
14 creditors, and third, what we call public health and safety,  
15 ensuring that the first two parts are determined and decided  
16 in a way that does not compromise but promotes public health  
17 and safety given the opioid crisis.

18 With regard to the numerator as relates to at  
19 least part of it, as you know, as Mr. Huebner just went  
20 through the debtors and ad hoc group of supporting parties,  
21 24 state -- 23 states now, and the plaintiff's executive  
22 committee, the MDL, although not municipalities themselves  
23 and the Sackler family have agreed to a term sheet which was  
24 filed on the docket a few days ago outlining the settlement  
25 framework.

1           We weren't provided with a draft of that term  
2       sheet, we asked for it, and we saw it -- at first we saw it,  
3       well, two hours before it was put on the docket, although  
4       that was already the time of (indiscernible). The committee  
5       currently takes no position on a settlement framework.  
6       Because frankly we're just looking at it the same time  
7       everyone else is, other than to note the following two  
8       points.

9           First, we would hope that any party that wants it  
10      to be approved and confirmed should spend time and effort  
11      convincing us of that fact. And if a party wants to reject  
12      it and wants to think -- say that it should not be approved,  
13      they should time and effort convincing us of that case.  
14      They should not be going out, they should be coming to us.

15           Second, all we can say about it substantively is  
16      that it's a starting point. At this point we're not  
17      prejudging anything and we need to do our work. A lot of  
18      work actually. We'll have to investigate any and all claims  
19      both against the Sacklers and others and understand the  
20      potential value from the Purdue business and the IACs and  
21      any insurance policies, and we hope and expect every party  
22      in the case will cooperate with us.

23           With regards to the denominator, perhaps as  
24      important as getting value for creditors is determining how  
25      that value should be allocated and doing so quickly. AS pro

1       hocs obvious, but we're stating that it would be a  
2       tremendous disappointment in this case if we were to achieve  
3       a consensual settlement, one that maximizes value and then  
4       spend years and years fighting over the allocation of it.

5           We raise this issue now because as noted earlier,  
6       there are different types of creditors here, and different  
7       types of litigants. We express in our 2019 statement that  
8       certain litigants have gotten most of the press coverage,  
9       and some parties in this case have expressed to us that such  
10       litigants should get the lion share of any value that comes  
11       out of this case. Indeed, you heard Mr. Huebner say that he  
12       thinks 85 percent or 86 percent of the creditors in this  
13       case are public entities. We don't know that.

14           We take no position on this issue at the time --  
15       at this time. Given our role as fiduciaries of all  
16       unsecured creditors, and at the same time that we're looking  
17       to settlement framework of the numerator, we hope to engage  
18       in a process of figuring out who gets what during the six  
19       month period if there is a preliminary injunction, so as to  
20       avoid a protracted and costly fight at some point in the  
21       future.

22           And we hope to do it in the form of consensus  
23       where all parties will have to give a little and recognize  
24       that the parties' claims have value.

25           The third big issue I said was public health and

1 safety. It goes without saying that the reason we are all  
2 here is not just trying to figure out the future of Purdue,  
3 but to do so in a way that intends to combat the opioid  
4 crisis, that many people believe that Purdue and the  
5 Sacklers had a part, had a role. It is inevitable that we  
6 are going to have to address these issues.

7 And so as we think about doing so on key decisions  
8 like what to do with Purdue's business now, what to do with  
9 Purdue's go forward business, what to do with the IACs,  
10 whether an emergency victim fund should be set up, we have  
11 to do so while considering public health and safety. There  
12 may actually be no greater or grander important issue  
13 considered in this case.

14 Third, where do we see this case going?  
15 Preliminarily and noted above, sorry, noted earlier, we  
16 talked about the settlement term sheet. The debtors for  
17 their part have facilitated discussions between these  
18 parties, but they have unequivocally stated that they're  
19 still doing their work, and therefore as we understand it  
20 could not possibly be bound to that term sheet. In fact, I  
21 think everyone knows that the term sheet is unsigned.

22 And the committee for its part is going to do its  
23 work as noted above and will be looking at everything. And  
24 24 other states, as you know, vehemently object to the  
25 settlement. So what actually do you have? You have two

1 open minded fiduciaries, half the states on one side, half  
2 the states on the other. We for our part are going to do  
3 everything we can to achieve the three goals I noted  
4 earlier.

5 And we think it would behoove everybody in this  
6 case to take a short period of time to allow the two estate  
7 fiduciaries to come to a determination together, as to which  
8 way they think this case should go with regard to the  
9 settlement framework.

10 This would mean that the estate fiduciaries should  
11 not be dealing with Chapter 11 plans, exclusivity  
12 objections, standing motions, examiner motions for a short  
13 period of time, because at bottom, the two estate  
14 fiduciaries should be the only ones in this case without a  
15 parochial interest in what happens to the Sacklers or to  
16 which creditors get which proceeds, so long as it's done  
17 fairly and equitably in a manner that enhances the public  
18 health and safety.

19 Finally, Your Honor, the fourth point of our  
20 agenda is what is the UCC's position on the preliminary  
21 injunction motion and why we haven't done anything or filed  
22 anything on the docket yet.

23 As you've no doubt noticed, we have not taken a  
24 position yet and we still are not going to take a position  
25 as of this morning. The committee has been in existence for

1 six working days. We've been dealing with a lot of things  
2 all at once, including this. Consistent with what I  
3 mentioned earlier, we've been working with the debtors and  
4 the Sacklers on a case protocol on terms that would allow  
5 some of the items that I mentioned earlier to occur.

6 It is our hope to be in a position as Mr. Huebner  
7 said to file this before the hearing tomorrow, and include  
8 at that time, the statements in support of the injunction.  
9 We don't know if that'll happen, but that's our hope.

10 We've been focused on this because we believe we  
11 are the best situated to investigate the cause of action  
12 against the various parties including the Sacklers. And if  
13 we do not believe the settlement is sufficient and we are  
14 unable to procure more value, we believe we're the best  
15 situated to bring those causes of action in a way that will  
16 benefit all unsecured creditors.

17 Third, and perhaps most importantly, we are  
18 working with the debtors as part of this protocol on  
19 potentially jointly seeking this Court's approval to set up  
20 an emergency relief fund to start combatting the crisis.

21 This is not designed to be a payment on claims.  
22 It's designed for lack of a better word to be -- to do the  
23 right thing and to start dealing with the opioid crisis now.  
24 We believe there's precedent to do this from PG&E and we  
25 expect every party in the case will work cooperatively and

1 collaboratively to get this in place early and not let their  
2 parochial interest get in the way.

3 With that, Your Honor, we've no more remarks.

4 THE COURT: Okay.

5 MR. PRIZ: Thank you.

6 MR. HUEBNER: Just two very very tiny things for  
7 me --

8 THE COURT: Okay.

9 MR. HUEBNER: -- because I'm like 99 percent or so  
10 in agreement. One, when I said 85 to 86 percent, we're not  
11 taking obviously any view on ultimately allowable claims.  
12 I'm merely telling you in terms of the litigations filed,  
13 85.8 I think percent of them were filed by governmental  
14 litigants. Obviously we're a long way from knowing who has  
15 what claim and I don't want anybody to draw an inference  
16 from Mr. Priz's remarks that the debtors have remotely  
17 concluded let alone done the work necessary to figure out  
18 ultimately a claim allowance when we're three weeks into the  
19 case.

20 Number two, just one tiny point, I hope Mr. Priz  
21 will forgive me, when he sort of cast it as half the states  
22 on one side, half the states on the other, I think it  
23 probably is fair to mention that the supporters also include  
24 the MDL PC and the co-lead plaintiffs which together I think  
25 represent a massive percentage of the state entities --

1 under the states, municipalities, counties, et cetera, on  
2 the -- not taking a view, I just don't want the record to be  
3 sort of inaccurate. I have nothing else to say at this  
4 point. I see Mr. Eckstein wants to rise, as I think the  
5 third (indiscernible) will be out by the time we're done, I  
6 shouldn't say the third wheel, I'll just sit down.

7 THE COURT: Okay.

8 MR. ECKSTEIN: Good morning, Your Honor, Kenneth  
9 Eckstein of Kramer Levin representing to the ad hoc  
10 committee of consenting states and municipalities.

11 I'm going to try to supplement the remarks made by  
12 Mr. Huebner and Mr. Priz briefly, but I think given what has  
13 been accomplished to date, it's useful to make a couple of  
14 observations to supplement the first day hearing.

15 As we informed Your Honor at the outset of the  
16 case, we entered this case representing a group of  
17 governmental and other creditors that were supportive of a  
18 settlement framework that had not yet been memorialized in  
19 writing.

20 Mr. Huebner referenced over the past several weeks  
21 there has been an extremely intense effort invested by a  
22 variety of constituencies involved in this case to try to  
23 achieve more substance to a settlement, and in fact, earlier  
24 this week a settlement term sheet was agreed to that was  
25 ultimately filed on the docket on Tuesday.

1 The settlement term sheet continues to have the  
2 support of substantial governmental and other creditors,  
3 including 28 states and territories or 23 states, five  
4 territories, Indian tribes, one of which is a member of the  
5 ad hoc committee, countless cities, counties and  
6 municipalities, six of which are members of the ad hoc  
7 committee as well as the plaintiff's executive committee  
8 which consists of thousands of cities, counties and tribes,  
9 as well as other litigants, including hospitals and third  
10 party payors.

16                   That said, Your Honor, we recognize that there are  
17                   -- there is still substantial constituencies in the case  
18                   that do not yet support the settlement, and there is  
19                   significant work that needs to be done in order to achieve a  
20                   sufficient broad consensus.

21 Your Honor, the settlement does have several key  
22 elements to it that are important. First of all, the assets  
23 will be transferred to a new post reorganization structure  
24 controlled by claimants, as Mr. Huebner indicated will have  
25 no involvement from the Sackler family.

1                   The Sackler family will no longer be in the opioid  
2 business. Billions of dollars will be dedicated to  
3 treatment and remediation of the public health crisis caused  
4 by the opioid epidemic and this remediation will occur in  
5 the near future, not years from now after protracted and  
6 costly litigation, one of the significant motivations of  
7 entering into a settlement at the outset of the case.

8                   As Your Honor has heard, the settlement  
9 contemplates substantial ongoing diligence to be provided by  
10 the debtors and the Sacklers. We need financial clarity as  
11 to where the money has gone and the value of the Sacklers'  
12 overseas operations, as well as sufficient information and  
13 documents to allow all parties in this case to verify the  
14 obligations in the agreement.

15                   While negotiations over the settlement have been  
16 lengthy and at times contentious, the parties have all  
17 worked hard to get to this point. Reaching the settlement  
18 of the term sheet is not a final step in this process, Your  
19 Honor. While a large accomplishment it remains frankly only  
20 an initial step.

21                   I want to assure, Your Honor, all of the parties  
22 that were involved in this term sheet recognize the  
23 importance for a broad group of constituencies to  
24 participate in what needs to be done in order to achieve a  
25 plan. Therefore, this term sheet does not contemplate quick

1 break neck type of milestones that Your Honor may have seen  
2 in other cases.

3 This contemplates a significant diligence process  
4 that is going to be undertaken, not only by the ad hoc  
5 committee, but undoubtedly by the official creditor's  
6 committee. There is going to be a negotiation of a  
7 restructuring support agreement over the next 120 days and  
8 leading up to that we expect that there's going to be  
9 significant diligence provided by the debtors and the  
10 Sacklers.

11 The term sheet expressly provides that there will  
12 not be a motion to approve the restructuring support  
13 agreement prior to 180 days. That will allow even more time  
14 to elapse and it contemplates that a plan will not be filed  
15 until 270 days. This is an attempt to on the one hand move  
16 this case forward expeditiously but not to in any way  
17 interfere with the important rights that parties have to  
18 test a lot of information that needs to be vetted in this  
19 case.

20 The term sheet also specifically contemplates that  
21 there are other parties in interest in this case that will  
22 need to be consulted and actively involved in the process.  
23 I'm hopeful, Your Honor, that the term sheet will not be a  
24 source of division, but rather will provide a framework,  
25 will provide a foundation for ultimately a successful plan

1 of reorganization and will provide adequate opportunity for  
2 the official creditor's committee to do its important job,  
3 and will provide an opportunity for the states and  
4 municipalities who are not yet supportive of this plan to  
5 gain the information they need in order to ultimately get  
6 comfortable with the plan structure, and have the confidence  
7 that this, in fact, does provide an appropriate vehicle to  
8 resolve this case and address this problem in an effective  
9 and significant manner, which is the intention of the  
10 parties who are supporting this process and the members of  
11 the ad hoc committee.

12 Your Honor, I want to assure the Court as Your  
13 Honor had urged at the outset, we have begun interactions  
14 with the other parties in this case while we have been  
15 interacting with the debtors and the Sacklers on the term  
16 sheet. We have begun our discussions with the creditor's  
17 committee, we also have ongoing discussions with the non-  
18 supporting states, and the hope is that with the term sheet  
19 now in place, all the parties in this case including the ad  
20 hoc committee can turn their attention to building the  
21 appropriate consensus, and through an efficient process  
22 learning the important information necessary to satisfy  
23 ourselves with this plan, in fact, can lead to a confirmable  
24 solution that will have the greatest support possible  
25 through the constituencies in the case. Thank you, Your

1 Honor.

2 THE COURT: Okay. Thank you.

3 MR. TROOP: They keep pointing at me, Your Honor,  
4 so Andrew Troop from Pillsbury Winthrop representing the ad  
5 hoc group non-consenting states.

6 Just a few facts. I represent 53 percent of the  
7 United States population on the ad hoc group, counting these  
8 municipalities, included (indiscernible) subdivisions.

9 Second, I apologize to Mr. Priz because I kicked the podium  
10 while he was speaking and he didn't skip a beat.

11 Third, Your Honor, I would be -- I have no  
12 intention of arguing before you today (indiscernible) to  
13 argue tomorrow. But I would ask you to think about reducing  
14 the time that the debtor's committee and others in support  
15 of the preliminary injunction can talk tomorrow by about the  
16 hour that we spent talking today.

17 The -- I know that we'll all vehemently protest  
18 that that's not what they're doing, we were just giving you  
19 an update on where we are, but the very important issues of  
20 how this Court should or should not exercise its power to  
21 limit the ability of parties to litigate outside of this  
22 forum against not only (indiscernible) for hearing tomorrow  
23 and I'll reserve my comments on that until then. Thank you,  
24 Your Honor.

25 THE COURT: Okay. I appreciate the remarks by the

1 four parties. They don't directly pertain to any of the  
2 matters that are on today's calendar, and normally I  
3 would've cut each of you short because of that, but this is  
4 an unusual case and I applaud and encourage the parties, as  
5 frankly I think they have in connection with this hearing,  
6 to continue to work behind the scenes to minimize litigation  
7 issues.

8 It's clear to me that work will be going on as  
9 soon as this hearing ends pertaining to tomorrow's issue.  
10 And that's a good thing. I also note that in an unusual  
11 case like this, remarks from the bench can sometimes be  
12 helpful to help guide that type of process, that consensual  
13 process.

14 So not knowing where you are going with your as  
15 Mr. Priz said, case protocol and Mr. Huebner said blueprint,  
16 I wanted to give you a couple of my preliminary thoughts to  
17 make sure that you at least consider them and focusing on  
18 those issues, which I think also may be relevant to other  
19 parties in interest in the case.

20 The Purdue companies in some way, in some major  
21 way, are a focal point for a much larger issue, which is the  
22 nationwide opioid crisis. The degree of their  
23 responsibility for that crisis is disputed, although I think  
24 at least to some extent acknowledged by the agreements that  
25 Purdue has put forward.

1                   But there are, to my mind, two courses for this  
2 case. One is to deal specifically with Purdue's exposure  
3 and the other is to deal more generally with the general  
4 crisis. And those two courses can be harmonized, but it  
5 will be a difficult task and I appreciate very much that as  
6 Mr. Eckstein said, parties who are moving ahead in the  
7 settlement process recognize that it's a difficult process,  
8 that it won't take 30 days, it will not take 180 days to  
9 resolve, but that it needs to be addressed.

10                  As valuable as these debtors are, and as valuable  
11 as the assets of related third parties, including various  
12 Sackler family members and entities are, the size of the  
13 opioid crisis generally in terms of damages, just monetary  
14 damages is estimated to be far greater. Estimates range  
15 from a hundred to \$500 billion per year, many orders of  
16 magnitude greater than the valuations that people are  
17 talking about here.

18                  The money here therefore should be put to the best  
19 use. And given that different types of claimants I think it  
20 is obvious here that dealing with individual claims is not  
21 necessarily the best use. Although one can't possibly  
22 ignore the direct human impact.

23                  So it seems to me that while the traditional  
24 bankruptcy function of due diligence on assets, including  
25 litigation claims that the debtors may have is a major focus

1 of this case and should be. That is a relatively easy  
2 matter to grapple with. Bankruptcy courts deal with that  
3 all the time, who should investigate, how should the  
4 investigation be shared, and ultimately what decisions  
5 should be made as far as litigation or settlement.

6 What is more difficult is coming to grips with how  
7 the resources of these companies and any litigation targets  
8 should be distributed. That distribution mechanism I think  
9 the major cases, whether that's been a massive dislocation,  
10 whether it's Agent Orange, 9-11, the BP settlement, it has  
11 been proven that those payment mechanisms work best when  
12 thoroughly vetted. You mustn't ignore that.

13 So I will leave the rest for tomorrow, but I do  
14 hope that in coming up with your blueprint in addition to  
15 the due diligence that you focus on assets, you focus on a  
16 process for dealing with claims, but equally with the future  
17 on how these assets are distributed.

18 I am pleased to see that the committee has  
19 appointed several individuals to the -- I'm sorry, the U.S.  
20 Trustee has appointed several individuals to the creditor's  
21 committee. I understand that each state, whether through  
22 its governor or attorney general, represents the people of  
23 that state, as does the various municipalities, but no one  
24 can ignore the individual people affected by this crisis.

25 So I hope that you all will be able to work

1 together to use the money as wisely as possible, and through  
2 a plan which under the Bankruptcy Code and ultimately the  
3 Constitution can, in fact, be binding forever, unlike  
4 individual settlements in a non-bankruptcy context, where  
5 funds dedicated to solving a public health crisis can and  
6 have been invaded for other purposes.

7 So why don't we proceed then with today's agenda.

8 UNIDENTIFIED: Thank you, Your Honor, my  
9 colleague, Mr. Robertson will be presenting the uncontested  
10 matters first, if that's okay with Your Honor.

11 THE COURT: Well, actually can I say one more  
12 thing? As part of the blue print you should definitely be  
13 focusing on not only a claims process, but on how to  
14 structure that in light of potential use of the settlement  
15 funds.

16 There are enormous overlapping claim issues here,  
17 and one could see various places where the money could go,  
18 and there's certainly precedent for that going back to the  
19 Agent Orange settlement. Unlike most bankruptcy cases where  
20 you want to get the claims in and decide, I think a fair  
21 amount of thought should be given here to allocation issues  
22 first.

23 MR. DIZENGOFF: Your Honor, to give the Court  
24 comfort if I may, the proposed blueprint actually contain  
25 provisions on exactly those points. As I think I said at

1 some length on the first day, minimizing professional fees,  
2 and time to distribution of monies, and frictional costs  
3 which actually could be infinite is really, you know, maybe  
4 even the single most pressing reason we're in Chapter 11 at  
5 all. And I think the Court -- I hope will ultimately find  
6 that we are actually taking those issues deadly seriously.

7 THE COURT: Okay. Very well.

8 MR. ROBERTSON: Thank you, Your Honor, and good  
9 morning.

10 Your Honor, as Mr. Vonnegut noted, if it pleases  
11 the Court we would like to turn to the second day relief and  
12 first proceed with the uncontested items on for today  
13 beginning at the item number two.

14 THE COURT: Okay.

15 MR. ROBERTSON: Thank you, Your Honor. Your  
16 Honor, for the record, Christopher Robertson, Davis Polk &  
17 Wardwell on behalf of the debtors.

18 Your Honor --

19 THE COURT: And I'm working off the amended  
20 agenda, right?

21 MR. ROBERTSON: That's correct, Your Honor.

22 THE COURT: Very good.

23 MR. ROBERTSON: Your Honor, the first uncontested  
24 matter going forward is the debtor's taxes motion. That  
25 order -- the order approving the taxes motion on an interim

1 basis was entered on September 18th at Docket No. 65. The  
2 debtors filed a proposed form of final order at Docket No.  
3 252. I believe that Your Honor has binders with blacklines  
4 of each of the proposed final orders that show changes from  
5 the as entered confirmed orders. I have extra copies if  
6 Your Honor would prefer.

7 THE COURT: No, I have them here. So you don't  
8 have to hand it up.

9 MR. ROBERTSON: Thank you, Your Honor.

10 Your Honor, as is the case for each of the  
11 uncontested matters the final forms -- the taxes -- the  
12 final form of taxes order was negotiated with the official  
13 creditor's committee, the ad hoc committee and the U.S.  
14 Trustee. I would note up front that these key parties are  
15 signed off on each final form of order relating to the  
16 uncontested matters before Your Honor today.

17 As Mr. Huebner said at the outset, we work hard to  
18 reach consensus, you know, before coming into court and we  
19 would like to thank the U.S. Trustee, the UCC and the ad hoc  
20 committee for, you know, working with us very long and  
21 difficult hours to present a largely uncontested agenda  
22 today.

23 The debtors did not receive any objections or  
24 comments from any other parties in interest to the final  
25 taxes relief. The changes to this order are conforming

1 changes to make the interim order a final order. Subject to  
2 any questions that Your Honor may have, the debtors  
3 respectfully request entry of the final order.

4 THE COURT: Okay. Does anyone have anything to  
5 say on this motion, on a final basis?

6 All right. I had just one question. In this  
7 revised order as in a couple of other ones, the following  
8 paragraph was stricken, I'm not quite sure why. "Nothing in  
9 the motion of this order shall be deemed to authorize the  
10 debtors to accelerate any payments not otherwise due."

11 I think it was stricken because it then says prior  
12 to entry of a final order.

13 MR. ROBERTSON: That's correct, Your Honor.

14 THE COURT: But I don't -- I think the thought in  
15 the first clause is a good one, which is, "Nothing herein  
16 requires anyone to accelerate anything." So I would leave  
17 that in.

18 MR. ROBERTSON: That's --

19 THE COURT: I mean, it's consistent with the  
20 motion and the fact that the whole thing came out.

21 MR. ROBERTSON: That is --

22 THE COURT: I don't want there to be any  
23 implication --

24 MR. ROBERTSON: -- entirely okay, Your Honor. I  
25 appreciate that.

1                   THE COURT: Okay. All right. Well, with that one  
2 change, I'll grant the motion based on the record of the  
3 interim hearing and the lack of any objection to the entry  
4 of this order after due notice.

5                   MR. ROBERTSON: Thank you, Your Honor.

6                   Your Honor, the next motion on the agenda is item  
7 number 3, the debtor's insurance motion. The order  
8 approving the insurance motion on an interim basis was  
9 entered at Docket No. 66. The debtors filed a proposed form  
10 of final order at Docket No. 253. The debtors received  
11 informal comments from the U.S. Trustee, the UCC, and the ad  
12 hoc committee, and also from two of their insurance  
13 providers, which are reflected in the final form of order.

14                  I believe that counsel of Old Republic Insurance  
15 Company is present here and on the phone, Your Honor.

16                  THE COURT: Okay. I guess that raises my only  
17 question. You've added a paragraph regarding Old Republic,  
18 or ORIC. Reading between the lines, but I just wanted to  
19 have confirmation of this, in essence, you've negotiated an  
20 extension and these are the terms, in essence?

21                  MR. ROBERTSON: That's correct, Your Honor. If I  
22 may, so referring to paragraph 5 in the final order --

23                  THE COURT: Right.

24                  MR. ROBERTSON: -- this paragraph 5 relates to  
25 insurance policies with Old Republic Insurance Company. Old

1       Republic agreed to extend by one year its products liability  
2       policy, and also agreed to provide primary layer general  
3       liability coverage, effective October 1st.

4               THE COURT: And so part of that extension is to  
5       spread the existing collateral to the new policy?

6               MR. ROBERTSON: That's correct, Your Honor. So  
7       both of these policies are fronting policies. And  
8       importantly, the Old Republic policies require the debtors  
9       to provide and maintain collateral to secure any claims paid  
10      with respect to the policies.

11               So the language in paragraph 5, it mitigates any  
12      risk that Old Republic might advance amounts under these  
13      fronting policies about a guarantee of full reimbursement  
14      from the debtors. And just to say it, these protections  
15      were required by Old Republic, you know, in the context of  
16      the extension.

17               THE COURT: And you haven't reduced any -- I'm not  
18      sure you could -- but you haven't reduced any obligations of  
19      ORIC under the old policies?

20               MR. ROBERTSON: No, Your Honor. I don't speak for  
21      them, but I don't think so, Your Honor.

22               THE COURT: Okay. Not that I think you could, but  
23      I just wondered --

24               MR. LUSKIN: Your Honor, Michael Luskin, Luskin,  
25      Stern & Eisler for ORIC. And on the phone is Margaret

1 Anderson of Fox, Swibel, Levin, and Carroll, which is the  
2 primary outside counsel for ORIC, and her pro hac is  
3 pending. I don't think the order has yet been signed, but  
4 I'm sure there's a pile of them --

5 THE COURT: About 200, yeah.

6 MR. LUSKIN: -- back in chambers. Your Honor is  
7 correct. What ORIC has done is actually at the debtor's  
8 request issued a new policy, a replacement policy for  
9 another insurer who I gather wouldn't extend on the primary  
10 liability and then it extended the product liability claim,  
11 the existing collateral is spread over both.

12 There are no known prepetition claims, but the  
13 protection is there at the insistence of the insurer.

14 THE COURT: Okay. All right. Does anyone have  
15 anything to say on this motion? All right, I will grant the  
16 motion, again, based on the record of the interim hearing  
17 and the fact that, except as addressed in the revised final  
18 order, there were no objections, informal or formal.

19 Just on the pro hac point for a second, you're  
20 right. We have gotten a lot of pro hac motions. I just  
21 want to make sure everyone understands that unless you --  
22 after the time for any objection to the motion has passed,  
23 unless you e-mail the proposed order to chambers, it won't  
24 get addressed.

25 So if you haven't done that, then the order won't

1 get entered, it will just sit on the docket because I won't  
2 know about it.

3 MR. ROBERTSON: Thank you, Your Honor. Once  
4 again, this is Christopher Robertson, Davis Polk & Wardwell  
5 on behalf of the debtors.

6 Your Honor, the next motion on the agenda is item  
7 number 4, the debtor's surety motion. The order approving  
8 the surety's motion on an interim basis was entered at  
9 Docket No. 68. The debtor has filed a proposed form of  
10 order at Docket No. 254.

11 Your Honor, Westchester Fire Insurance Company  
12 provided informal comments to the proposed final order. In  
13 order to resolve any potential objection, we agreed to read  
14 our reservation of rights into the record. If Your Honor  
15 would indulge me?

16 THE COURT: Okay.

17 MR. ROBERTSON: Thank you. Thank you, Your Honor.  
18 Nothing in the final -- nothing in the interim or final  
19 orders shall increase the surety's obligations, if any, to  
20 issue new bonds or increase the amount of, or renew any  
21 current bonds.

22 THE COURT: Nothing in this order will?

23 MR. ROBERTSON: Nothing in this order.

24 THE COURT: Okay.

25 MR. ROBERTSON: The remaining changes to the form

1 of final order relates to consultation rights agreed with  
2 the creditor's committee, and the ad hoc committee, and  
3 conforming final order changes. And unless Your Honor has  
4 any questions regarding the relief requested in the surety's  
5 motion, the debtors respectfully request that a relief be  
6 granted on a final basis.

7 THE COURT: My only point on this one is the same  
8 one I've made on the tax motion. At the top of page 3,  
9 bottom of paragraph 4, there was a proviso. The whole  
10 proviso was stricken, I think, because there's a reference  
11 to granting the motion on a final basis. But you should put  
12 in again, "Provided that the debtors will not pay any  
13 prepetition amounts arising under the surety bond program  
14 before the applicable due date."

15 MR. ROBERTSON: Thank you, Your Honor. And the  
16 forms of order that we submit to chambers after this hearing  
17 will reflect that change.

18 THE COURT: Okay. So again, given that there's no  
19 opposition to this motion and the entry of the order as  
20 revised, and based on the record of the interim hearing,  
21 I'll grant the motion on a final basis.

22 MR. ROBERTSON: Thank you, Your Honor. Your  
23 Honor, I now turn to item number 5 on the agenda, the  
24 debtor's utilities motion. That -- the order approving the  
25 utilities motion on an interim basis was entered at Docket

1 No. 64. The debtors filed a proposed form of final order at  
2 Docket No. 250.

3 Your Honor, no responses were received to this  
4 motion other than from the creditor's committee, the ad hoc  
5 committee, and the U.S. Trustee. One point of clarification  
6 with respect to paragraph 3, the debtors have deposited the  
7 full amount of the adequate assurance deposit.

8 THE COURT: Okay. As per the interim order.

9 MR. ROBERTSON: Correct, Your Honor.

10 THE COURT: Right.

11 MR. ROBERTSON: I will pause, Your Honor, in case  
12 you have any questions regarding the requested relief.  
13 Otherwise, the debtors respectfully request that the relief  
14 be granted on a final basis.

15 THE COURT: Okay. Does anyone have anything to  
16 say on the utilities adequate assurance order? All right.  
17 I will grant the motion, which is unopposed, and based on  
18 the record of the interim hearing, this relief is consistent  
19 with Section 366 and the applicable case law in this  
20 district.

21 The point you just made, though, maybe is -- let  
22 me just look at paragraph 3, "To the extent not already  
23 deposited." All right. That's fine. There's no confusion  
24 there. That's fine. So you can e-mail that order to  
25 chambers.

1 MR. ROBERTSON: Thank you, Your Honor. Your  
2 Honor, the debtor's customer programs motion is the next on  
3 the agenda at item number 6.

4 THE COURT: Okay.

5 MR. ROBERTSON: The order approving the customer  
6 programs motion on an interim basis was entered at Docket  
7 No. 67. The debtors filed a proposed form of final order at  
8 Docket No. 251.

20 THE COURT: Okay. Does anyone have anything to  
21 say on this motion? All right. I'll grant the motion on a  
22 final basis, again, based on the fact that it's unopposed  
23 and the record of the interim hearing.

24 As you noted, this order has consultation  
25 obligations in it. As I noted before, there's at least one

1 other large active group. There may be more than one.  
2 While it doesn't have formal consultation rights under these  
3 orders, consistent with what the debtors have said all  
4 along, I'm sure they will be sharing information as far as  
5 appropriate requests are concerned on a regular basis with  
6 those parties too.

7 MR. ROBERTSON: Certainly, Your Honor.

8 Your Honor, the final uncontested matter is the  
9 debtor's critical vendor motion, which is at agenda number  
10 7. The order approving the critical vendors motion on an  
11 interim basis was entered at Docket No. 63. The debtors  
12 filed a proposed form of final order at Docket No. 255.

13 THE COURT: Okay.

14 MR. ROBERTSON: Apart from informal comments from  
15 the U.S. Trustee, the UCC, and the ad hoc committee, the  
16 debtors received an informal response from one vendor, LTS,  
17 Loan Therapy Systems Corp. Your Honor, the debtors agreed  
18 to add paragraph 14 of the proposed final order at the  
19 request of LTS Lohmann. This paragraph provides that goods  
20 shipped under prepetition purchase orders that are delivered  
21 to and accepted by the debtors after the petition date are  
22 granted administrative expense status.

23 The paragraph does not address payment of any  
24 outstanding claims that LTS may have on account of goods  
25 delivered prepetition. Again, the remaining changes to the

Page 60

1 form of final order reflect the addition of agreed reporting  
2 and consultation rights for the creditors committee and the  
3 ad hoc committee, and other conforming changes.

4 Subject to any questions that Your Honor may have,  
5 the debtors respectfully request entry of the final order.

6 THE COURT: All right. I obviously saw the  
7 addition of paragraph 14, which dealt with LTS Lohmann.  
8 This may be a much smaller -- I'm sure it will be a much  
9 smaller issue in this case than it has become in the Sears  
10 case, but a lot of potentially ambiguous meaning can be  
11 found by at least some parties in the phrase "delivered to  
12 and accepted by the debtors on the petition date," i.e.  
13 whether it's delivered to an intermediary, et cetera. I'm  
14 not sure whether the parties understand what they've agreed  
15 to here or if they're just willing to live with this  
16 language and deal with it later. But I just wanted to note  
17 that for the record.

18 MR. ROBERTSON: Thank you, Your Honor.

19 THE COURT: Okay. Is it --

20 MR. HUEBNER: Let me help with that for a second.

21 THE COURT: Okay.

22 MR. HUEBNER: I think given the context of this  
23 case and the extremely small --

24 THE COURT: Yeah. It's not -- it doesn't have the  
25 same meaning, but I -- if these two parties had an

Page 61

1 understanding as to what that means, fine. It may not mean  
2 the same thing in -- and this isn't a precedent for any  
3 other vendor.

4 MR. HUEBNER: Yeah. And as a reminder, Your  
5 Honor, of course, we have no secured debt and no DIP loans.  
6 There aren't really competing creditors per se on this.  
7 It's just a pre versus post issue. But we're pretty sure we  
8 know what it means.

9 THE COURT: Okay. Very well. Does anyone have  
10 anything to say on this motion? All right. I'll grant the  
11 relief on a final basis, again, based on the record of the  
12 interim hearing and the fact that the motion, except as the  
13 parties have modified the order, received no informal or  
14 formal objections.

15 MR. ROBERTSON: Thank you, Your Honor. And now  
16 I'd like to turn the podium over to my colleague, Eli  
17 Vonnegut, to address the wages motion, which is item number  
18 1 on the agenda.

19 THE COURT: Okay.

20 MR. VONNEGUT: Good morning, Your Honor. For the  
21 record, Eli Vonnegut of Davis Polk & Wardwell on behalf of  
22 the debtors.

23 The next item on the agenda is agenda item number  
24 1, Docket No. 6, the employee wages motion. The interim  
25 order on this motion is on the docket at item number 62, and

1 our proposed form of final order was filed at Docket 256.

2 Your Honor, since our first day hearing, we have  
3 been hard at work with the unsecured creditors committee,  
4 the ad hoc committee, and the U.S. Trustee, working to help  
5 everyone understand at warp speed produce complex business,  
6 and working to get everyone comfortable with all of the  
7 relief that we've sought from the Court.

8 I want to personally applaud and thank all of the  
9 advisors for these two groups for their very, very  
10 constructive and tireless efforts. They jumped in with both  
11 feet in a very difficult situation and got to work with  
12 truly remarkable speed and skill.

13 As we hope will become a theme in these cases, the  
14 principal shared goal of all of this hard work was reaching  
15 agreement as much as we possibly can and avoiding wasting  
16 estate resources and burdening the Court with unnecessary  
17 disputes.

18 With respect to the wages motion and the unsecured  
19 creditors committee and the ad hoc committee, we've reached  
20 agreements for today on the following approach. First are  
21 basic programs, including wages, benefits, expense  
22 reimbursement, vacation and sick leave, worker's  
23 compensation, savings plans, contingent workers. All of  
24 those programs are wholly uncontested. So we would ask the  
25 Court to authorize those programs on a final basis to give

1 our workforce comfort that they are squared away.

2                   There's a second category of programs. This  
3 hearing was scheduled, as Your Honor well knows, unusually  
4 early in this case. And the early days of this case have  
5 been extraordinarily busy. There's been a lot to do. In  
6 light of that, our constituents asked for some more time to  
7 complete their diligence on some of the more complex  
8 compensation programs that we have.

9                   We want everybody to be comfortable. We don't  
10 want to rush anybody needlessly, so we agreed to defer those  
11 programs to a hearing to be held on November 6th at 10:00  
12 a.m. For those programs, the annual incentive plan and the  
13 long term results plan will be deferred. The sign on  
14 bonuses above the small cap that Your Honor authorized in  
15 the interim order will also be deferred. So nothing will  
16 happen with respect to those programs.

17                   The non-executive retention plan and advancement  
18 of expenses, those were already authorized on an interim  
19 basis. They will continue to be authorized on an interim  
20 basis, but final approval will be deferred to November 6th.  
21 So for all of those programs, we are leaving in place the  
22 status quo under the interim order.

23                   With those deferrals, the relief that we're asking  
24 for today that goes beyond what was approved in the interim  
25 order already is very, very narrow. It's two programs that

1 we agreed to defer at the first day hearing, for which we  
2 now need approval, because they are relevant to business  
3 initiatives that the company is undertaking right now,  
4 effectively.

5 The first one is the Treyburn (ph) retention plan.  
6 That is modest in amount. It's limited to non-insider  
7 employees. And I'll go through this in more detail in a  
8 moment. It applies to employees that are critical to the  
9 successful consolidation of produced manufacturing  
10 operations. That work is being completed now and the  
11 payments will fall due soon, so we didn't think that those  
12 people should have to wait for comfort that they will be  
13 paid.

14 The second program is the market access ICP, which  
15 is another small program that only applies to non-insider  
16 employees. And that is scheduled to pay out very soon. And  
17 again, we wanted to give those people comfort that they're  
18 going to get paid so they're not left waiting.

19 One point of clarification, this is not new  
20 relief, but there's been some confusion on it, so I want to  
21 make sure that everybody's clear. Payment of severance to  
22 current employees, current employees now that are terminated  
23 post-petition was authorized on an interim basis and we are  
24 seeking final approval today. The only employees that we're  
25 aware of for whom this would be relevant are the Treyburn

Page 65

1 employees, because they're the only people that we know will  
2 be let go.

3 The U.S. Trustee, it's not clear to me whether  
4 they object to this. I think they may have some questions.  
5 So we'll leave that to later in the agenda.

6 We did get some requests from various constituents  
7 for additional information on the programs that we're moving  
8 forward with today. Those requests we have addressed in the  
9 supplemental declaration and Mr. Jon Lowne, who's our chief  
10 financial officer. That is on file at Docket No. 236. Mr.  
11 Lowne is present in the courtroom today, if anybody has  
12 questions. If not, I would ask that that declaration be  
13 admitted into evidence at this time.

14 THE COURT: Okay. Does anyone want to cross-  
15 examine Mr. Lowne on his supplemental declaration?

16 MR. SCHWARTZBERG: Your Honor, Paul Schwartzberg  
17 for the U.S. Trustee's Office. I do have a few questions  
18 for Mr. Lowne.

19 THE COURT: Okay. If you could come up to the  
20 stand then, sir. Would you raise your right hand, please?

21 JON LOWNE, WITNESS, SWORN

22 THE COURT: And could you just spell your name for  
23 the record, please?

24 THE WITNESS: Yes. It's J-O-N, L-O-W-N-E.

25 THE COURT: Okay.

2 BY MR. SCHWARTZBERG:

3 Q Good morning, Mr. Lowne. My name is Paul Schwartzberg.  
4 I'm an attorney with the U.S. Trustee's Office. And I was  
5 going to ask you a few questions on your supplemental  
6 declaration. Would you need a copy of that? Because I will  
7 refer to it.

8 A It might be helpful, yes. Thank you.

9 Q Counsel is quicker than I am. Thank you. First, I'd  
10 like to refer to paragraph 13 of that declaration. The  
11 second to the last question -- or last sentence, I  
12 apologize. It says, "None of the eligible -- none of the  
13 employees eligible for payment under the market access ICP  
14 are engaged or compensated on the basis of promotion of any  
15 opioid products to prescribers."

16 MR. VONNEGUT: Excuse me, Your Honor. We do have  
17 supplementary proffer testimony on this subject. I don't  
18 know if it's better to wait until --

19 THE COURT: Well, no, let Mr. Schwartzberg ask the  
20 question.

21 MR. SCHWARTZBERG: I apologize. I didn't --

22 BY MR. SCHWARTZBERG:

23 Q My first general question is what does the promotion of  
24 opioid products to -- well, what is the definition of a  
25 prescriber?

1 A A prescriber is someone that writes a prescription for  
2 an opioid product.

3 Q So the employees who are eligible to the market access  
4 ICP program, the bonus program that the debtors are seeking  
5 approval of today, they are being compensated for the  
6 promotion of opioids to people who -- or entities who are  
7 not prescribers?

8 A So they work with our distributors and our managed care  
9 organizations, and their compensation is based upon the  
10 parts of their compensation program, which is for Q3 and Q4,  
11 50 percent their individual objectives, 25 percent Adhansia,  
12 which is a non-opioid product, and 25 percent based upon the  
13 corporate objectives.

14 Q So to the extent the debtors are reaping benefits from  
15 the sale of opioids for either the 50 percent metric or the  
16 25 percent metrics, these people would be rewarded or  
17 provided bonuses?

18 A Well, their individual objectives are tied to the  
19 specifics of working with wholesalers and the specifics of  
20 working with managed care organizations, which is primarily  
21 working on (indiscernible) access --

22 Q I'm sorry. I didn't hear what you said.

23 A So working with managed care organizations, which is  
24 getting all of our products (indiscernible) access to  
25 provide products, make products available to the appropriate

1 patients.

2 Q And those products include opioids?

3 A Those products do include opioids.

4 Q Okay. You're aware of the six people who are under  
5 this plan, is that correct?

6 A That's correct.

7 Q Okay. Do you know if their compensation is below  
8 market value for the average pharmaceutical industry for  
9 their particular positions?

10 A I can talk generally on that.

11 Q I'm talking about these six people.

12 A So for the six people, like other people in our  
13 organization, compensation is compared to benchmarks for  
14 similar positions that our human resource compensation  
15 experts look at as part of compensation review of our  
16 employees.

17 Q So are they below market average?

18 A I don't know for these six individuals whether they're  
19 below, but we certainly benchmark our employees.

20 Q So it's possible they're being currently paid above  
21 market average?

22 A It's possible they could be above or below, I just  
23 don't know the answer to that question.

24 Q All right. Thank you. I'm going to reference  
25 paragraph 10 of your declaration. Let me get to it too.

1 Roughly four lines down, a sentence starts, "As described in  
2 more detail in the -- your declaration, under the severance  
3 plan, vice presidents and above, with less than five years  
4 of employment with the debtors received six months of  
5 severance pay." And then, "And vice presidents and above  
6 with greater than five years receive one year of severance  
7 pay."

8 What I'm focusing on on that sentence is the "and  
9 above" portion. Do you see that?

10 A I do.

11 Q Okay. How many employees do the debtors have that are  
12 above vice president?

13 A I don't know the exact number of people above vice  
14 president.

15 Q Do the people above vice president include more than  
16 the ten people referenced in -- I'm sorry, in Footnote 4 of  
17 your declaration? Those ten people, if you want to look,  
18 are the people that are, for lack of a better term, admitted  
19 insiders? The ten people referenced in your -- I think to  
20 an exhibit to your initial declaration. Are there more than  
21 those ten people?

22 A Yes, there are.

23 Q And what are the levels? How many senior vice  
24 presidents are there?

25 A I don't know of the ten how many are senior vice

1 presidents.

2 Q No, I apologize. Forgetting about Footnote 4.

3 A Okay.

4 Q You had indicated there are people above the vice  
5 president level that are not included in Footnote 4. How  
6 many of those people are senior vice presidents?

7 A How many people --

8 Q But do you know how many senior vice presidents the  
9 company has, other than referenced in Footnote 4?

10 A There are no other senior vice presidents, other than  
11 those referenced in Footnote 4.

12 Q Okay. What are the levels -- the general description,  
13 their levels of the people who are above vice president that  
14 are not listed in Footnote 4?

15 A So --

16 Q Broad brush.

17 A Yeah. So it's vice presidents. There's no title that  
18 I'm aware of between vice president and senior vice  
19 president. So it would be a vice president title as  
20 pertains to the paragraph 10 that you've asked me to look  
21 at. So for example, some titles that I can think of are our  
22 head of the -- our commercial organization, which is now a  
23 very small part of our business, is a vice president. I  
24 don't recall his exact title.

25 Q Well, I -- maybe we're talking at cross-purposes here.

1 I was asking how many people are above the vice president.  
2 I'm focusing on the "and above" in those two phrases. And I  
3 wanted to know how many people are above the vice president  
4 level that are not included in Footnote 4. And you had  
5 indicated, if I recall, that you did not know.

6 A No, no, so I misunderstood your question.

7 Q Okay.

8 A I thought I replied that there are no senior vice  
9 president and above, with the exception of those people that  
10 are listed in paragraph --

11 Q Okay. Then maybe I misunderstood you, so --

12 A Yeah, no, no.

13 Q So other than the ten people in paragraph 4, there's  
14 nobody above vice president?

15 A That is correct.

16 Q Okay. All right. That's --

17 A Sorry.

18 Q And then the next question is how many vice presidents  
19 are there?

20 A I don't know the exact number.

21 Q Okay. Could it be more than ten?

22 A If it's above ten, it would be marginally above ten. I  
23 can't think that there's much more than ten. It might be  
24 slightly less.

25 Q So I want to focus on the people in Footnote 4.

1 A Okay.

2 Q Do any of them -- do any of their job descriptions or  
3 functions entail the sale of opioids or connected to the  
4 sale of opioids?

5 THE COURT: This company sells opioids.

6 THE WITNESS: So -- so --

7 THE COURT: No, the answer is they all do.

8 BY MR. SCHWARTZBERG:

9 Q All right, thank you. That's the answer?

10 A (No audible response).

11 Q Yes, okay.

12 A I would expand on the answer to say that we don't have  
13 a sales force that calls on prescribers of opioids. We  
14 don't do any promotion of opioids, but obviously much of our  
15 sales revenue is from opioids. So we touch opioids from  
16 that perspective.

17 Q Are any of the ten people that are referenced in  
18 Footnote 4, do they have -- let me back up. Are you aware  
19 of the informational brief the debtors filed on the first  
20 day?

21 A I've read a lot of the briefs. I'm sure I've seen it.

22 Q In that brief, the debtor acknowledged misconduct, or  
23 the debtor discusses the acknowledged misconduct in the  
24 marketing of OxyContin from 1996 to 2001; are you aware of  
25 that?

1 A I am aware of that, yes.

2 Q And in that information brief, it references that  
3 Purdue, Frederick Company, and the guilty plea for  
4 misbranding OxyContin; are you aware of that?

5 A Yes, I am.

6 Q Okay. Are any of the ten people referenced in Footnote  
7 4, are they connected or do they have anything to do with  
8 the first thing I discussed, the misconduct between 1996 and  
9 2001 in the marketing of OxyContin?

10 MR. VONNEGUT: Judge, the phrase "connected to," I  
11 think is a problematically vague phrasing for this question.

12 BY MR. SCHWARTZBERG:

13 Q Were any of the ten people employed with the debtor  
14 between 1996 and in 2001?

15 A Certainly, I was employed during that period of time.  
16 I'm not sure about all of the others of the ten list.

17 Q So are you aware of any of the ten people participated  
18 in the misconduct that the debtors acknowledged in the  
19 informational brief?

20 A I'm not aware, but I'm -- I don't think any of them  
21 were part of the guilty plea, or any of them were convicted  
22 of any wrongdoing. I know that for a fact.

23 Q You know that for a fact. Well, we know that they're  
24 not convicted of any wrongdoing, but do you know for a fact  
25 that they weren't participating in any of the misconduct

1 that the debtors acknowledge?

2 A I'm not aware.

3 Q Do you know or are you aware if they were involved with  
4 the actions that resulted in the guilty plea in 2007?

5 MR. VONNEGUT: Excuse me, Judge. We'll proceed  
6 however you like, but we do have some very crisp testimony  
7 addressing these very issues prepared. If it would be  
8 helpful, we can do that, and maybe then Mr. Schwartzberg can  
9 proceed with any unanswered questions.

10 MR. SCHWARTZBERG: Your Honor, they filed the  
11 motion and then they filed the supplement, I'm cross-  
12 examining the witness. If they had other --

13 THE COURT: You could ask him on redirect.

14 MR. VONNEGUT: Okay, fair.

15 MR. SCHWARTZBERG: Thank you, Your Honor.

16 BY MR. SCHWARTZBERG:

17 Q Do you know if any of the ten in the footnote 4 of your  
18 declaration were -- if their employment activities involved  
19 the actions that are connected to the guilty plea in 2007  
20 regarding the misbranding of OxyContin?

21 MR. MCCLAMMY: I'm sorry, Your Honor, Jim McClammy  
22 from Davis Polk on behalf of the debtors and with Mr.  
23 Vonnegut. I'm just unclear exactly where this is all going  
24 with respect to these ten people who are really not part of  
25 the relief that's being sought today as who was insiders and

1 not. I think, given the limited nature, I'm just not sure  
2 that this is relevant to the --

3 THE COURT: You're not looking to apply the  
4 severance plan to these ten people?

5 MR. SCHWARTZBERG: Your Honor, the declaration --

6 THE COURT: No, let -- I need you to answer that  
7 question.

8 MR. VONNEGUT: No, we are, Your Honor.

9 THE COURT: You are?

10 MR. VONNEGUT: Yes.

11 THE COURT: Okay, all right.

12 MR. SCHWARTZBERG: Your Honor, because of the --

13 THE COURT: So it's not irrelevant.

14 MR. SCHWARTZBERG: -- because of the sparse --

15 THE COURT: No, it's not irrelevant, you can go  
16 ahead.

17 MR. SCHWARTZBERG: Okay. Thank you, Your Honor.

18 BY MR. SCHWARTZBERG:

19 Q Do you know if the ten people that are in your footnote  
20 4, admitted insiders, were involved or their jobs caused  
21 them to do actions that were connected to the misbranding of  
22 OxyContin that Purdue Frederick Company pled guilty to in  
23 2007?

24 A So when I look at the roles of these people, many of  
25 these people weren't with the company during this time and

1 the people that were were in jobs that were not remotely  
2 touching the sales and marketing organization, and,  
3 therefore, it would be my belief that they would have  
4 nothing to do with the misbranding of OxyContin.

5 Q Is that your belief or do you know that for a fact?

6 A The people that were here were me that was in the  
7 finance organization, I could give other examples, but they  
8 were in R&D and manufacturing or other parts of the  
9 organization.

10 Q So, to the best of your ability, you do not believe the  
11 ten people listed in footnote 10 were connected to or  
12 involved in the actions that caused the Purdue Frederick  
13 Company to plead guilty in 2007?

14 A To the best of my knowledge.

15 Q In terms of the vice presidents that the debtor seeks  
16 to pay -- to include in the severance program, do any of the  
17 vice presidents participate in board meetings?

18 A On a very, very rare basis, if there is a particular  
19 topic that is highly specialized that may require them to be  
20 present.

21 Q And in those instances do the board listen to what the  
22 vice presidents say and influence what the board may do?

23 A So, ultimately, before they would present to the board,  
24 their presentation would be presented to the insider group  
25 or limited -- the insider group, which would typically be

1       Craig Landau, myself, Mark Kesselman at a minimum, before  
2       any presentation would be made to the board.

3       Q       So the vice presidents report directly to the CEO, the  
4       CFO, and the COO?

5       A       It varies. I can't recall every VP, but certainly some  
6       of the VPs that I can recall off the top of my head, one  
7       does report directly to the CEO.

8       Q       Are you aware if any of the vice presidents were  
9       employed by the debtors between 1996 and 2001?

10      A       I don't know the answer to that.

11      Q       Okay. Are you aware if any of the vice presidents were  
12       employed by the debtors in 2005 to 2007?

13      A       I would imagine that in that time period I could think  
14       of one I'm pretty sure was employed during that time frame.

15      Q       Do you know if that one that you are thinking about job  
16       details would have included activities that were -- that  
17       resulted in or connected to the 2007 guilty plea by the  
18       Frederick Company in connection with the misbranding of  
19       OxyContin?

20      A       My recollection that that was for the period 1996 to  
21       2001, I have no knowledge whether that individual had any  
22       involvement, but I repeat what I said earlier that I'm not  
23       aware of any individual that we have currently employed that  
24       has any guilty plea against them.

25      Q       I'm not talking about a guilty plea against them, I'm

1 talking about working for or doing their job and that job  
2 caused the debtor to plead guilty in -- the Purdue Frederick  
3 Company to enter a guilty plea?

4 A Yeah, I have no knowledge of that.

5 Q Okay. I'm going to just now turn the attention to the  
6 -- what I -- well, do you understand -- or my understanding  
7 is that the debtors currently only have plans regarding 14  
8 employees, I'll call them the Treyburn 14, who may receive  
9 severance, and there is nobody else that right now is  
10 contemplated to be laid off and to receive a severance; is  
11 that correct?

12 A That is correct.

13 Q Do you know if any of the Treyburn 14, for lack of a  
14 better term, are currently also or may receive benefits  
15 under the Treyburn retention plan?

16 A I believe that they are -- so that the Treyburn 14 that  
17 are receiving -- is your question are they receiving  
18 severance in addition to the Treyburn retention plan?

19 Q The Treyburn retention plan -- yes, yes.

20 A Yes, yes, some of them will be.

21 Q Do you know how many of the 14 will be receiving both?

22 A I believe it is the majority of them, I don't know the  
23 exact number.

24 Q So more than seven will be receiving both severance and  
25 retention payments?

1 A Yes, I'm pretty sure that's the case.

2 Q Are you aware if any of the 14 have job offers with the  
3 purchaser of the Treyburn facility?

4 A We're not aware of that information and my  
5 understanding is that the -- that Novo is posting jobs, our  
6 employees may or may not be applying for those jobs, we have  
7 no intelligence on whether they've accepted jobs.

8 Q So all 14 who are going to receive severance on  
9 November 29th/December 1st may then show up at the facility  
10 on December 2nd and continue with their job but for the  
11 purchaser?

12 A Anything is possible. They could show up at any  
13 employer the following day.

14 Q Okay.

15 MR. SCHWARTZBERG: May I have one minute, Your  
16 Honor? I'm sorry.

17 (Pause)

18 BY MR. SCHWARTZBERG:

19 Q Oh, one last question. And could you state what is  
20 done or produced or manufactured at the Treyburn facility?

21 A So the Treyburn facility manufactures OxyContin and I  
22 believe it manufactures a couple of other opioid generic  
23 products for our generic company.

24 Q Do you know the annual gross revenues of the Treyburn  
25 facility that's generated by their production?

1 A Not off the top of my head, no.

2 MR. SCHWARTZBERG: Your Honor, at this time I  
3 don't have any more questions.

4 THE COURT: Okay. Redirect?

5 MR. VONNEGUT: Yes, Your Honor.

6 REDIRECT EXAMINATION

7 BY MR. VONNEGUT:

8 Q Thank you, Mr. Lowne, just a few follow-up questions.

9 Mr. Schwartzberg asked you a number of questions about  
10 the misconduct between December of 1995 and June 2001 that  
11 was the subject of the 2007 guilty plea and involvement or  
12 connection of any current employees with that misconduct.  
13 To your knowledge, were any current employees charged with  
14 or convicted of any criminal misconduct?

15 A No.

16 Q Thank you. And currently, Mr. Lowne, am I correct in  
17 thinking that the entire opioid salesforce at Purdue has  
18 been terminated?

19 A That is correct.

20 Q Okay. And is it correct to say as well that Purdue no  
21 longer promotes opioid pain medications to prescribers,  
22 whether through sales representatives or via other channels  
23 such as medical journals?

24 A That is correct.

25 Q Okay. Now, with respect to the Treyburn retention

1 plan, Mr. Schwartzberg asked you some questions about what  
2 the Treyburn plant produces, and those products do include  
3 opioid pain medications?

4 A That's correct.

5 Q Okay. And am I correct in thinking that some of the  
6 people that we are attempting to retain at the Treyburn plan  
7 include security personnel and diversion control personnel  
8 as well?

9 A That is correct.

10 Q Okay. Thank you, Mr. Lowne.

11 MR. VONNEGUT: I believe that concludes redirect.

12 THE COURT: Okay. Mr. Lowne, I just had a  
13 question. You just testified that the entire opioid  
14 salesforce was terminated, but I took from your earlier  
15 testimony, maybe I misheard it, that a portion of the work  
16 that the six people on the -- covered by the market access  
17 ICP is involved in dealing with prescribers for opioid  
18 products, but with other parties; is that right?

19 THE WITNESS: That's right, yes.

20 THE COURT: So why wouldn't they be included as  
21 salesforce? What's the distinction?

22 THE WITNESS: The distinction is that typically a  
23 branded manufacturer when they have a salesforce, they're  
24 calling on doctors to explain -- or prescribers to explain  
25 the product in detail --

1                   THE COURT: Right.

2                   THE WITNESS: -- and that could certainly be seen  
3                   as influencing prescribing behavior, and similarly  
4                   promotion, whether it's a journal publication or other  
5                   promotional item, could be seen as influencing sales. The  
6                   distinction that I think any branded manufacturer would have  
7                   is that the people that are talking to the wholesalers, as  
8                   one example -- I'll get to the second in a minute -- is  
9                   they're working with wholesalers on the contracts that  
10                   determine how the product is distributed through the  
11                   channels, they're working with the wholesalers to manage the  
12                   inventory levels, but they're not doing anything to touch  
13                   the end prescriber. They're working on getting products  
14                   into the market or the trade, as we refer it to, for the  
15                   appropriate patient.

16                   The second category of person in this market  
17                   access plan is what we refer to as our managed care group  
18                   and every branded pharmaceutical company has these people.  
19                   They're the people that work with the managed care  
20                   organizations and they do that for all of our products,  
21                   whether it's opioid products or Adhansia products, and  
22                   that's -- they work with them to get the products on the  
23                   formulary, which allows the appropriate patient when they  
24                   walk into the pharmacy to it to be on their benefit plan.

25                   THE COURT: You're using a term that I'm not sure

1 I understand, I'm not sure the court reporter will be able  
2 to spell it; formulary, is that what you're referring to?

3 THE WITNESS: Formulary, yes. So --

4 THE COURT: Could you spell it?

5 THE WITNESS: Yeah, sure. F-O-R-M-U-L-A-R-Y.

6 THE COURT: Formulary.

7 THE WITNESS: Yeah. So what that means, said a  
8 different way, is that when someone that has a benefit plan  
9 walks into a pharmacy to pick up their product, it allows  
10 them to get the product under their benefit program or  
11 insurance plan.

12 THE COURT: Okay. So it's already been  
13 prescribed?

14 THE WITNESS: Yes.

15 THE COURT: Okay, all right. Any questions on  
16 that?

17 All right, you can step down, sir.

18 MR. TROOP: Actually, Your Honor, you asked a  
19 question that was on my mind and you also raised another  
20 question, I would just ask (indiscernible) --

21 THE COURT: All right, that's fine.

22 MR. TROOP: Maybe four.

23 (Laughter)

24 RECROSS-EXAMINATION

25 BY MR. TROOP:

1 Q I'm just trying to figure out how to say this most  
2 clearly. Your salesforce, when it goes out to the managed  
3 care plans to ensure that OxyContin is on the formulary,  
4 what data do you provide to the managed care facilities in  
5 order to influence their use of that drug with their  
6 patients?

7 A I'm not sure the exact answer to that question, being a  
8 finance person, but we're certainly not giving any  
9 promotional materials in any shape or form to managed care  
10 to influence their decisions.

11 Q And getting it on the formulary makes it eligible for  
12 Medicare and Medicaid payment; correct?

13 A That's right.

14 Q How are your sales affected if the drug is not included  
15 on the formulary?

16 A Like any company, being on formulary would impact sales  
17 or not being on formulary would result in a reduction in  
18 sales.

19 Q And you said you provide no promotional materials to  
20 the managed care facility, and is that true for the  
21 wholesaler as well?

22 A That's correct.

23 Q What do you provide them about the drug?

24 A Any interactions with them in terms of the drug would  
25 be medical questions that would be addressed by our medical

1 affairs group, which are medical experts. Our managed care  
2 people are not talking about any medical aspects of the  
3 product.

4 Q So does the medical care group provide information --

5 A On the --

6 Q -- that goes along with the drug that says use it this  
7 way?

8 A Only on an as-requested basis, as I understand it.

9 MR. TROOP: No further questions, Your Honor.

10 THE COURT: Okay.

11 MR. VONNEGUT: Your Honor, I just have a few  
12 clarifying redirect questions, if that's okay.

13 FURTHER REDIRECT EXAMINATION

14 BY MR. VONNEGUT:

15 Q Mr. Lowne, so we all seem to be having a hard time  
16 with, you know, the line between the things that Purdue does  
17 today and the things that Purdue does not do today. Is a  
18 fair to describe that line that the employees we're talking  
19 about are responsible for making Purdue medications  
20 available in the marketplace, but not responsible for  
21 increasing prescription volume or encouraging prescription?

22 A That is correct.

23 Q Okay. Thank you very much.

24 MR. VONNEGUT: That's the last question that I  
25 had.

1                   THE COURT: Okay. All right, you can step down,  
2                   sir.

3                   MR. VONNEGUT: Thank you. Your Honor, as you're  
4                   well aware, this is an important subject that we intended to  
5                   and want to address very much head-on today and throughout  
6                   this case. The question of whether current employees  
7                   engaged in misconduct is a very serious one and we think  
8                   needs to be handled very, very carefully.

9                   Before I turn to the programs at issue today and  
10                  summation of Mr. Lowne's testimony, I would like to  
11                  reiterate one request to all of our stakeholders: if you  
12                  have questions on very serious matters like this, or indeed  
13                  anything at all, please reach out to us before filing an  
14                  objection or a pleading of any kind, so that we can try to  
15                  address them.

16                  Purdue today is a very different organization than  
17                  it has been in the past. We want to do whatever we can to  
18                  allay everyone's concerns. These are very, very difficult  
19                  times for our workforce and having public speculation about  
20                  whether they may or may not have engaged in misconduct is  
21                  very difficult for the morale of people who are working  
22                  extremely hard under very difficult circumstances to  
23                  preserve and maximize value for these estates.

24                  THE COURT: Can I ask you, is there -- obviously,  
25                  this is a highly regulated product --

1 MR. VONNEGUT: Yes, sir.

2 THE COURT: -- and industry, are there -- beyond  
3 regulatory constraints, are there recognized best practices  
4 either coming from the CDC or any other place --

5 MR. VONNEGUT: Sure.

6 THE COURT: -- for the current sale of these  
7 products?

8 MR. VONNEGUT: Sure. So I don't want to purport  
9 to be a pharmaceutical regulatory expert, but I'll give you  
10 my understanding.

11 Promotion of prescription medications to  
12 prescribers is legal; lots of companies do it for a variety  
13 of medications. Purdue, of course, voluntarily stopped  
14 doing that entirely with respect to its opioid pain  
15 medications. The activities that the company conducts today  
16 related to its opioid pain medications all relate to making  
17 sure that those medications are available in the market for  
18 patients that need them and are prescribed those medications  
19 by their doctor.

20 The other best practice is related to operating a  
21 pharmaceutical business that includes opioid medications are  
22 all around the safe handling of those businesses, ensuring  
23 that diversion of those -- sorry, safe handling of those  
24 medications, ensuring that diversions of the medications do  
25 not occur. Frankly, Your Honor, that's one of the reasons

1 that it's so important to retain the staff at the Treyburn  
2 plant is to ensure that all of those medications are handled  
3 safely and responsibly.

4 THE COURT: So there are no recognized regulations  
5 or best practices as far as distribution of the opioids to  
6 either managed care groups or wholesalers?

7 MR. VONNEGUT: Again, Your Honor, I don't want to  
8 purport to be an expert on something that isn't my field,  
9 but my understanding is that the company complies with all  
10 best practices related to distribution.

11 MR. HUEBNER: Your Honor, this may or may not be  
12 helpful, but to the extent that obviously, as everyone is  
13 aware, Purdue has been subject to unprecedented litigation,  
14 the injunctive relief that we are requesting to self-impose,  
15 which applies to practices that have now been in place at  
16 the company for a while, in no small part is actually what  
17 the plaintiffs, including many governmental entities who  
18 were very involved in these issues, have actually been  
19 focused on asking for or demanding, et cetera, for many  
20 months now. It was actually based in part on the Oklahoma  
21 settlement where exactly trying to get to what at least the  
22 State of Oklahoma perceived of as best practices and most  
23 limited practices is exactly what we're gravitating towards  
24 for exactly those reasons.

25 I think that the cleavage, you know, even just

1 hearing the people that we're talking about being called the  
2 salesforce actually I think is really not the right -- it  
3 wasn't your term, it was someone else's, but it's really not  
4 the right term. When pharmaceutical companies talk about  
5 having a salesforce, they really talk about trying to talk  
6 to prescribers to encourage them in their use of the  
7 product.

8 I think as Mr. Lowne was trying to make clear --  
9 and, again, I don't think he expected to be cross-examined  
10 about the whole organization and so, you know, whether or  
11 not he was the right person, I think he hopefully did a fine  
12 job -- you know, when we're dealing with formularies and  
13 just trying to make sure that it is an available medication  
14 on a Blue Cross/Blue Shield plan or a state Medicaid plan --

15 THE COURT: No, I understand --

16 MR. HUEBNER: -- that's a very different issue.

17 THE COURT: -- I understand that. I just -- I  
18 think where the questioning was going ultimately was whether  
19 there are practices and procedures in place -- we're talking  
20 about six people, so --

21 MR. HUEBNER: Yes.

22 THE COURT: -- you know, it's not particularly  
23 difficult to brief them and monitor them -- to ensure that  
24 they're not through wholesalers or group -- managed group --  
25 managed care groups incentivized to, you know, in cahoots

1 with them, get more out than is needed.

2 MR. HUEBNER: Yeah. I mean, at the end of the  
3 day, Your Honor, it's only prescribers that actually decide  
4 how much OxyContin is sold. No wholesaler, no managed care  
5 formulary has any contact with a patient to say take -- my  
6 understanding, because I don't want to be testifying, but  
7 I'm pretty sure I'm right -- to say you should take this  
8 drug, not that drug, or this is a great drug. That's why  
9 the issue of promotion by an actual salesforce to  
10 prescribers, which include nurse practitioners, doctors,  
11 anesthetists, pharmacists, and the like, is where the  
12 industry draws such a bright cleavage.

13 So when you say we have stopped promoting, what  
14 that means is all dialogue with potential prescribers has  
15 stopped. As Mr. Lowne did testify -- and this is very  
16 important, because this I think is actually as conservative  
17 as one could possibly be -- the Medical Affairs Department  
18 only responds to incoming inquiries, there's no longer  
19 outreach by the company to any end user or prescriber in an  
20 attempt to encourage them to choose Oxy over a competing  
21 product.

22 I think that's probably the comfort you were  
23 looking for. If I had to take an educated guess -- and it's  
24 not much more than that, but I am moderately educated after  
25 19 months -- the self-limitations that Purdue is already

1 agreeing to, coupled with, for example, the Oklahoma model,  
2 to which we are seeking to impose on ourselves, probably  
3 would constitute, if not the most restrictive provisions  
4 governing a major pharmaceutical branded manufacturer, are  
5 pretty close to it.

6 And I don't want to sort of go under oath and say  
7 that, because we weren't quite planning for this today, but  
8 I think it's probably a relatively safe assumption that that  
9 has a lot of truth to it.

10 THE COURT: Okay.

11 MR. VONNEGUT: Yes. And, Your Honor, the reason  
12 we're trying so hard to be so precise about this is the  
13 language is very important. For instance, a distinction  
14 that is kind of counterintuitive is some governmental  
15 agencies will consider making your products available in the  
16 market a form of promotion. And so, you know, the phrase  
17 that we use is salesforce promotion, that is the thing that  
18 Purdue does not do, calling on prescribers and affirmatively  
19 reaching out to prescribers.

20 Okay. Your Honor, I would propose now to turn to  
21 the details of the two programs that are actually at issue  
22 for today.

23 THE COURT: Okay.

24 MR. VONNEGUT: So the Treyburn retention plan.

25 The debtors are currently in the process of transitioning

1 away from their manufacturing facility in Treyburn, North  
2 Carolina, and consolidating their manufacturing operations  
3 as a cost-cutting initiative. The Treyburn plant was sold  
4 in August of 2019. Purdue is currently leasing the facility  
5 back from the buyer for a limited transition period, so that  
6 they can complete the consolidation of manufacturing  
7 operations in their other plant.

8 To maintain the safety, security, and quality of  
9 the company's manufacturing operations, the employees at the  
10 Treyburn facility, all of whom are non-insiders, needed to  
11 be incentivized to stay through completion of the  
12 transition. They are currently undertaking a range of very  
13 important transition activities, including preparation for  
14 removal and reinstallation of selected equipment at the  
15 Treyburn facility that's going to move to another facility;  
16 identification and acquisition of leased office, laboratory,  
17 and warehousing space; preparation for decommissioning of  
18 the Treyburn facility, because it needs to be cleaned up the  
19 right way once we leave; preparation for decontamination of  
20 the site; providing all required notifications to regulatory  
21 agencies, including the DEA and the FDA. This is, needless  
22 to say, a very heavily regulated business and it's extremely  
23 important to do this transition and decommissioning the  
24 right way.

25 The retention plan covers a total of 52 non-

1       insider employees. Total payments are \$521,058 in 2019 and  
2       approximately \$108,972 in 2020. These payments will not  
3       exceed a maximum of \$23,056 per employee.

4                   The most senior employee covered under the plan  
5       holds the title of Director of Pharmaceutics and Analytical  
6       Development. That person reports to the head of Technical  
7       Services, who is themselves also not an insider, and has  
8       responsibilities including development of product  
9       formulations, manufacturing processes, and analytical  
10      methods related to the production of the debtor's products  
11      at the Treyburn facility.

12                  Other employees covered by the retention plan  
13      include diversion control specialists, manufacturing and  
14      packaging operators, pharmaceutical technicians, and  
15      pharmaceutical process specialists.

16                  We're very comfortable, Your Honor, that none of  
17      those employees come close to being insiders.

18                  With respect to the severance plan, the company-  
19      wide severance plan has been in place since 2014, it was not  
20      altered in any way or amended in conjunction with this  
21      bankruptcy. Vice presidents and above -- I'll just cover  
22      this briefly again, so everybody has it -- vice presidents  
23      and above that do not have employment contracts and have  
24      less than five years of service get six months of severance,  
25      those with five years or more get one year.

1               Below vice president, people either get two or  
2       three weeks of severance for each year of service, depending  
3       on their grade level, with a minimum of eight weeks and a  
4       maximum of 52 weeks.

5               We have one non-insider employee with an  
6       employment contract that provides for six months' severance,  
7       plus any earned but unpaid prior year annual bonus.

8               One thing I want to be very clear about, since  
9       there was some confusion with the U.S. Trustee on the point,  
10       if an insider is severed post-petition, we have an automatic  
11       cap built into our order. We will run the calculation  
12       required under Section 503(c)(2) of the Bankruptcy Code and  
13       cap any payout to that party at that amount.

14               Currently, the only known severance obligations  
15       that we have or that we expect to incur are related to the  
16       Treyburn employees. That covers 14 people and totals just  
17       under \$660,000. We have no plans to terminate any other  
18       current employees, so any other potential severance  
19       obligations are hypothetical.

20               THE COURT: How many people are employed there?

21               MR. VONNEGUT: Are employed at the Treyburn  
22       facility?

23               THE COURT: Right.

24               MR. VONNEGUT: I don't know the total number of  
25       employees off the top of my head. I would imagine that it

1 is the 52 participants in this plan, but I'm not sure.

2 UNIDENTIFIED SPEAKER: Seventy three.

3 MR. VONNEGUT: Seventy three, Your Honor.

4 (Laughter)

5 THE COURT: Okay.

6 MR. VONNEGUT: Okay, so just briefly with respect  
7 to the necessity of both of these programs.

8 Orderly completion of our transition and  
9 consolidation is very important. If we do not receive  
10 approval of the Treyburn retention plan and payment of the  
11 promised severance, we're concerned that the employees that  
12 we're trying to retain through the transition may not stay  
13 and that we would not be able to replace those highly  
14 skilled and very specifically talented workers. This would  
15 be very disruptive to operations, it would harm the value of  
16 the business, and it could jeopardize the safety and  
17 security of the facility. So we, therefore, think that  
18 those two plans are very necessary under the circumstances.

19 If Your Honor doesn't have any questions about  
20 Treyburn, I can turn to the market access ICP plan.

21 THE COURT: Okay.

22 MR. VONNEGUT: Okay. So a key component of  
23 Purdue's go-forward business plan is diversification of the  
24 business beyond opioids to generate new growth. One of the  
25 key building blocks of that diversification strategy is a

1 new medication called Adhansia XR, which is a newly  
2 developed medication for ADHD. To successfully launch new  
3 products such as Adhansia, the company needs a motivated  
4 group of field-based employees and the market access ICP  
5 plan is designed to do just that, to motivate employees in  
6 connection with this diversification strategy to get this  
7 new product off the ground, up and running.

8 The employees that are eligible for payments under  
9 the market access ICP are responsible for ensuring optimal  
10 distribution of Purdue medications throughout the market,  
11 negotiating contracts with wholesaler accounts, securing  
12 managed care access to Purdue products, and managing the  
13 performance of market access customers.

14 Very importantly, as you heard from Mr. Lowne and  
15 I just want to make this crystal clear, none of the  
16 employees that are eligible for payments under this program,  
17 indeed none of the employees at the company at all, are  
18 engaged in or compensated on the basis of promotion of any  
19 opioid products to prescribers, period, full stop.

20 None of the employees that are eligible for  
21 payments under the market access ICP have a title higher  
22 than director or otherwise qualify as an insider under the  
23 rubric that debtors have used and that Mr. Lowne testified  
24 to in his supplementary declaration.

25 In the remainder of 2019, the total remaining

1 payout for these six non-insider employees is approximately  
2 \$168,000, an average of 28,000 per person. The maximum  
3 possible remaining 2019 payout would be \$273,000, if results  
4 exceed expectations substantially.

5 We believe the market access ICP is a customary  
6 program in the pharmaceutical industry, it's necessary to  
7 motivate the relevant employees and align their incentives  
8 with those of Purdue's future owners, and very much in the  
9 best interests of the debtors and their estates.

10 So, unless Your Honor has any questions, we would  
11 ask that the modified order be approved, and I can walk Your  
12 Honor through the changes in the proposed form of order.

13 THE COURT: Fifty percent of the plan is based on,  
14 quote, "employee performance," which I gather is separate  
15 and apart from the sales of the Adhansia. What are the  
16 metrics for determining -- or how is that determined, that  
17 50 percent?

18 MR. VONNEGUT: Sure. So the metrics under the  
19 plan, some relate to company-wide performance, which just go  
20 to the --

21 THE COURT: Well, that's 25 percent.

22 MR. VONNEGUT: Right. So the employee-specific  
23 performance is based on goals set by each individual's  
24 manager that relate to their sales performance, the  
25 performance of their individual line of business, and their

1 individual performance related to goals set by the company.

2 THE COURT: Okay.

3 (Pause)

4 THE COURT: I guess I'm still having a hard -- I  
5 mean, if what they're providing is for what's already been  
6 prescribed, what is it that they really do other than just  
7 sort of --

8 MR. VONNEGUT: Sure.

9 THE COURT: -- checking off orders and making sure  
10 it's delivered to the pharmacy or to the managed care group.

11 MR. VONNEGUT: Right, right. So let me offer an  
12 important clarification.

13 That's true with respect to opioid pain  
14 medications. There is promotion of Adhansia XR still going  
15 on, so that's one component of their jobs.

16 THE COURT: But that's the 25 percent.

17 MR. VONNEGUT: Understood. So the --

18 THE COURT: Or are you saying that part of the  
19 employee performance may include that too?

20 MR. VONNEGUT: Yes, sir, I believe it does now.  
21 But with respect to what we'll call the making medications  
22 available in the market component of their performance, like  
23 anything else, that's something that one can do well or  
24 badly. And so, you know, their job is to -- part of their  
25 job is to ensure that if a patient is in need of a Purdue

1 medication and their doctor wants to prescribe it to them  
2 that they're able to get it. And in working with  
3 wholesalers, with managed care customers, part of these  
4 people's job is to ensure that those medications are  
5 available for appropriate patients that need them and their  
6 performance and how well they do that is part of how their  
7 performance is evaluated and part of how these payouts are  
8 determined.

9 THE COURT: Okay.

10 MR. VONNEGUT: Okay, thank you, Your Honor. So we  
11 have a proposed form of final order, which is on the docket  
12 at -- excuse me -- that's on the docket at number 256. Do  
13 you have a copy of the market order?

14 THE COURT: I do.

15 MR. VONNEGUT: Great. Okay. So the bulk of the  
16 changes are relatively straightforward, they're simply  
17 converting interim relief to final relief. We can of course  
18 stet the language that you pointed to earlier in paragraph 2  
19 regarding the acceleration of payment.

20 The one different category of change is in  
21 paragraph 9. This is language that was requested by  
22 American Express, who runs the company's purchasing card  
23 program, which employees use for reimbursable expenses.  
24 Essentially, they want comfort that they're going to be paid  
25 and that's what we've attempted to give them here.

1                   The one slightly different thing that they've  
2    asked for that I would point Your Honor to is towards the  
3    end of that paragraph. They're not asking for this today,  
4    but in the proviso at the back of that paragraph they've  
5    given us time to seek from the Court approval to waive  
6    potential avoidance actions against them. So we're not  
7    asking for that today, but effectively on the basis of us  
8    seeking this language for them, they've turned back on the  
9    purchasing card program and they're making clear that  
10   they're allowed to turn it back off again if by November  
11   20th we do not achieve this waiver of avoidance actions.

12                   Candidly, Your Honor, we did our best to persuade  
13    them they didn't need this and it's duplicative of the other  
14    relief that they're getting, we did not succeed. So we are  
15    happy to seek approval of that additional relief however you  
16    would like us to do so, whether that's by separate motion or  
17    just by asking for it to be included in the amended final  
18    order that we're going to seek in November.

19                   THE COURT: To me it just acknowledges the  
20    existence of the agreement, so --

21                   MR. VONNEGUT: That's how we feel, Your Honor.

22                   THE COURT: -- it's not -- I guess it's not a  
23    problem to put it in there.

24                   MR. VONNEGUT: Okay.

25                   THE COURT: So, Mr. Schwartzberg?

1 MR. HUEBNER: Your Honor, may I see one last  
2 thing? Mr. Lowne actually -- we've been working in the  
3 background, because we want all parties, especially the  
4 Court, to be comfortable that we're not doing foolish  
5 things, even though the amounts at issue here for the ICP  
6 plan are not particularly material, Mr. Lowne could actually  
7 answer a few more targeted questions, or I could actually  
8 proffer a little more testimony that I just adduced from him  
9 to answer the question of what is this 50 percent for and  
10 are we sure that we're not wasting our money.

11 THE COURT: Okay, do you want to proffer that?

12 MR. HUEBNER: Sure. So I'll watch Mr. Lowne's  
13 face to make sure I'm getting it right, because we've been  
14 sort of working in the background here.

1 the company's best interest.

2 So they are actually a very, very important  
3 function, having them incentivized is important. But again,  
4 as Mr. Vonnegut and Mr. Lowne and then everybody has  
5 repeated 50 times, it's not promotion, it's not with  
6 prescribers who issue the prescriptions, it's ensuring that  
7 the prescriptions are written, there's access to the product  
8 and it is done on economically favorable terms to the  
9 company, which are critical to our business model.

10 Mr. Lowne, may I ask you if I have successfully  
11 summarized what we whispered to one another?

12 MR. LOWNE: Everything you said is fair, yes.

13 THE COURT: Okay.

14 MR. HUEBNER: So hopefully that's helpful, Your  
15 Honor. We're not giving money away for no reason.

16 MR. SCHWARTZBERG: Can I ask a quick --

17 THE COURT: Do you want to cross-examine Mr. Lowne  
18 on that?

19 MR. SCHWARTZBERG: Yeah, can I just ask a --  
20 should I approach?

21 THE COURT: Yeah, I want to make sure the  
22 microphone is --

23 MR. SCHWARTZBERG: -- (indiscernible) keeps  
24 telling me to sit down, so --

25 (Laughter)

1                   THE COURT: I want to make sure the microphone is  
2 picking you up. He works for the government.

3                   MR. SCHWARTZBERG: I'm not sure if that gives me  
4 assurance or not.

5                   (Laughter)

6                   MR. SCHWARTZBERG: You heard what --

7                   THE COURT: Oh, let me just say, you're still  
8 under oath for the purpose of answering this question, Mr.  
9 Lowne.

10                  MR. SCHWARTZBERG: You heard what Mr. Huebner  
11 said, didn't you?

12                  MR. LOWNE: Yes, I did.

13                  MR. SCHWARTZBERG: Would it be incorrect to say,  
14 the more opioids the debtor sells, the more bonus the market  
15 access IPC plan pays to these six employees?

16                  MR. LOWNE: They're not an incentive to increase  
17 the amount of opioid prescriptions; they're merely trying to  
18 keep our product on formulary. Our product --

19                  MR. SCHWARTZBERG: I don't think that was the  
20 question I asked.

21                  MR. LOWNE: I apologize.

22                  MR. SCHWARTZBERG: If -- and I'm making up numbers  
23 here --

24                  MR. LOWNE: Yes.

25                  MR. SCHWARTZBERG: -- if the debtors sell 50

1 million worth of opioids, do they get less bonus than if the  
2 debtor sells a hundred million of opioids?

3 MR. LOWNE: There's no -- nothing in their  
4 objectives that tie it to the net sales of opioids.

5 MR. SCHWARTZBERG: I'm not sure -- it may be my  
6 ignorance -- that you answered the question.

7 MR. LOWNE: Okay.

8 MR. SCHWARTZBERG: If the debtors sell \$100  
9 million of opioids, do these people get more bonuses than if  
10 they sold 50 million of opioids?

11 MR. HUEBNER: Your Honor, I'm going to object.  
12 This is really asked and answered. The Court has already  
13 acknowledged, everyone has acknowledged, we sell opioid;  
14 parts of the bonus plans are based on company-wide  
15 performance.

16 THE COURT: Other than company-wide performance,  
17 do they get any more bonus or not?

18 MR. LOWNE: No, they don't. No.

19 THE COURT: Okay, all right.

20 MR. SCHWARTZBERG: So the amount of opioids  
21 doesn't matter, they get --

22 THE COURT: No, it --

23 MR. HUEBNER: Okay, now it's badgering

24 THE COURT: -- now we're asked and answered.

25 MR. SCHWARTZBERG: All right. Yes, Your Honor.

1                   Just so the record is clear, the U.S. Trustee is  
2 not objecting to the Treyburn retention plan.

3                   THE COURT: Okay.

4                   MR. SCHWARTZBERG: I wasn't sure that was clear.  
5 And then, as Counsel indicated, because of the sensitivity  
6 issues regarding the employees, regarding what we were  
7 talking about, the past conduct, I will just defer to the  
8 Court and the Court can draw its own conclusions from the  
9 testimony regarding that.

10                  THE COURT: Well, I'm sorry, I want to make sure I  
11 understand the -- what you're not objecting to. You're not  
12 objecting to the Treyburn retention plan --

13                  MR. SCHWARTZBERG: That's referenced in paragraph  
14 17 of --

15                  THE COURT: Right. No, I understand that, but  
16 there's severance, which applies generally, except with  
17 regard to the ten people in footnote 4, and that includes  
18 severance in connection with Treyburn. Are you objecting to  
19 severance?

20                  MR. SCHWARTZBERG: It's the severance, the  
21 severance plan, and also as it applies to the Treyburn 14.

22                  THE COURT: Right.

23                  MR. SCHWARTZBERG: And the market access plan.

24                  THE COURT: What is the basis for objecting to the  
25 severance?

1 MR. SCHWARTZBERG: On two bases, Your Honor --  
2 well, obviously, I think the testimony elicited these are  
3 not insiders, so the question is basically business judgment  
4 and things of that nature.

5 Two things that I think they indicated. One, we  
6 don't know if they're going to turn around the day after  
7 they get -- I think it's December 1st -- and turn around and  
8 still have the same job, so they may not -- the severance --

15 And I guess you could say that, you know, the  
16 Treyburn retention plan is doubling up, but at the same time  
17 I think everyone knows they're going to be out of a job. So  
18 I'm assuming they've negotiated the retention plan  
19 acknowledging that they'll be out of a job and part of that  
20 is they need to pay them a little more than just severance  
21 to keep them on, because they would get the severance  
22 immediately. So I don't really follow the logic there.

23 MR. SCHWARTZBERG: Well, our concern was the  
24 doubling up as --

25 THE COURT: But it's not doubling up, because --

1 again, if you feel that you need to pay them to stay on, the  
2 severance isn't doubling up, they would -- they will leave  
3 and so they get their severance. So it doesn't seem to be  
4 doubling up to me.

5 MR. SCHWARTZBERG: All right, then I'll move on,  
6 Your Honor.

7 In terms of the market access plan, as the witness  
8 testimony, we don't know if the current compensation is  
9 below, at, or above market. If it's above market, it might  
10 not be necessary -- it may or may not, but that's a fact  
11 that's important and should be disclosed.

12 Similarly -- well, I'll leave it at that in terms  
13 of that issue. The testimony to me, although at the end it  
14 seemed to have changed, it seemed that the more opioids they  
15 sold, the more -- the more that --

16 THE COURT: No, but if we just stop there, I think  
17 this is an important point to get over or to address.  
18 Opioids are a legal product. It's not selling thamila (ph)  
19 -- it's not like selling an illegal drug or a drug that only  
20 has adverse consequences. It's a product that continues to  
21 be prescribed and, as far as I know, unless someone develops  
22 a better drug, the alternative is excruciating pain for  
23 people. The problems stem from over prescription or  
24 improper prescription. So just saying that the company  
25 shouldn't be -- and its employees shouldn't be rewarded for

1 selling it properly is -- it doesn't make sense to me. I  
2 mean, that's basically a decision that regulators should  
3 make and doctors should make who influence the regulators.

4 So, to me, the question is whether the -- not  
5 whether they are incented to have the company perform better  
6 or incented for them to sell more, but rather are they being  
7 incented to sell more improperly, and I just -- I don't get  
8 the impression that that latter is the case. It just -- you  
9 know, I think their job is to ensure that Purdue's OxyContin  
10 isn't rejected in favor of someone else's opioid. And,  
11 obviously, they have to comply with the company's best  
12 practices. I think it would be and I think it probably is  
13 warranted to put in the order that they wouldn't be entitled  
14 to any bonus if they deviate from -- I mean, among other  
15 sanctions, if they deviate from the company's best  
16 practices.

17 MR. SCHWARTZBERG: All right, I'll --

18 THE COURT: I'm sure -- would the company be  
19 amenable to that? I would think so.

20 MR. VONNEGUT: Yes, Your Honor.

21 THE COURT: All right.

22 MR. SCHWARTZBERG: I'll move on to my last point  
23 then, Your Honor.

24 MR. HUEBNER: And law, Your Honor. I mean, just  
25 to be clear --

1 THE COURT: Well, yeah, but that --

2 MR. HUEBNER: -- this is an extremely regulated  
3 product --

4 THE COURT: -- but there has been a gap between  
5 law and --

6 MR. HUEBNER: Right.

7 THE COURT: -- best practices.

8 MR. HUEBNER: Yeah, we completely agree. I just  
9 want it to be clear that it was clearly both, so that nobody  
10 was left with a misimpression.

11 MR. SCHWARTZBERG: The last point, Your Honor, is  
12 that there's a break on the severance plan and the vice  
13 presidents are not included as insiders and, therefore,  
14 would not be subject to the cap. The witness indicated that  
15 on occasion they do speak to the board and on occasion --

16 THE COURT: I would hope they do. Boards are  
17 supposed to be informed of the facts when they make  
18 decisions. I don't get any impression that these people are  
19 causing the board to make a decision, but they're coming in  
20 and reporting, just like any person at a lower level would  
21 be expected to do.

22 MR. SCHWARTZBERG: Well, I think the witness also  
23 testified they speak to the CEO, the CFO, the COO, and --

24 THE COURT: Right, so they don't surprise the  
25 people who are actually helping to influence the decision.

1                   MR. SCHWARTZBERG: Well, the thought there being,  
2 Your Honor, that they can influence the decision and  
3 depending --

4                   THE COURT: Well, I would hope so. I mean, people  
5 -- boards are not supposed to act with blindfolds on.  
6 They're supposed to act based on information provided to  
7 them. If you -- it just -- if that were the test, then  
8 boards wouldn't be able to function.

9                   MR. SCHWARTZBERG: Well, the concern is that the  
10 vice presidents may be insiders, or some of them may be,  
11 some of them not, and therefore some of them should be  
12 subject to the cap and some not.

13                  THE COURT: But that's a concern that doesn't seem  
14 to be supported by the evidence.

15                  MR. SCHWARTZBERG: Right. With that then, Your  
16 Honor, I'll sit down.

17                  THE COURT: Okay, all right. All right, certain  
18 parties filed joinders to the U.S. Trustee's objection. As  
19 the case management order makes it clear, a joinder is a  
20 very -- in terms of one's rights in court a very weak  
21 pleading, including if someone withdraws an objection that  
22 you've joined to, you are essentially erased. So we're  
23 early in the case and maybe people don't appreciate that  
24 yet, but does anyone else have anything to say with respect  
25 to the motion other than the debtors in rebuttal?

1 MS. VAN ECK: Good morning, Your Honor, Melissa  
2 Van Eck on behalf of the Commonwealth of Pennsylvania. Our  
3 commonwealth was one of the joinders that was filed to the  
4 U.S. Trustee motion. In light of the agreement that was  
5 reached between the debtor and the UCC and the ad hoc  
6 committee, we are in line with that agreement. We want to  
7 make sure that the Commonwealth is included in the  
8 disclosure of the due diligence.

9 THE COURT: Okay.

10 MS. VAN ECK: Thank you.

11 THE COURT: No, I think the agreement is very well  
12 taken. Frankly, if it hadn't been agreed to, I would have  
13 pushed you all to do something like it.

14 As I said before, this isn't a normal case in some  
15 respects. It's a very public case where people are tempted  
16 to make public statements that they might not have to take  
17 if they have more time to look at matters, and I think time  
18 is warranted here on the programs that the parties have  
19 agreed to defer consideration of. It may even be too soon  
20 to do it on the 6th, we'll see, depending on where you are  
21 in the case.

22 Again, public perception here is more important  
23 than in most cases, buy-in on a plan that includes some of  
24 the points that we were discussing at the beginning of the  
25 hearing is important. And bonus is such a loaded word and

1 can be twisted and turned in ways that, if people are more  
2 educated, they might not need to do.

3 So I think it does make sense to defer and include  
4 in the discussion people who might feel that they would  
5 otherwise have to object because they really don't have the  
6 facts.

7 MR. VONNEGUT: Thank you, Your Honor, very much  
8 agreed. That's the entire purpose of giving extra time is  
9 so that we can undertake that discussion and that education  
10 process, to make sure that people understand how the company  
11 is operating.

12 I'd just like to briefly respond to some of the  
13 things that Mr. Schwartzberg said. First and most  
14 importantly, and I don't intend to belabor the point, but  
15 this notion that, you know, the more opioids that are sold,  
16 the more people get paid.

17 I just want to be very, very clear about the  
18 nature of the company's current business and what it does  
19 with its opioid medications. They are made available in the  
20 market for prescription by physicians to patients that need  
21 them. Those patients include people who have pain severe  
22 enough to require daily, around-the-clock, long-term  
23 treatment. It's important to remember that the initial  
24 innovation of OxyContin was an important one. It's a  
25 medicine that for people who need it, it gives them dignity

1 and peace, it lets people sleep through the night. So what  
2 we are trying to do with the debtor's opioid medications is  
3 make them available to people who need them.

4 With respect to the other points made by Mr.  
5 Schwartzberg related to the basis for paying severance,  
6 candidly, I think we agree with all the comments that Your  
7 Honor made there. These are people that we need to stick  
8 around at the Treyburn plant. We need to fulfill and honor  
9 the promises that were made to these people to get them to  
10 continue to work at the plant, given that we can offer them  
11 no long-term job certainty of any kind.

12 With respect to the market access plan, I think  
13 you heard from Mr. Lowne that the company does undertake  
14 market competing. But from a 50,000-foot level it's important  
15 to note that this is a company under extremely difficult  
16 circumstances, it's a very hard place to work, it's a very  
17 challenging place to work, and Purdue pays its employees  
18 what it needs to pay for them to be motivated to do their  
19 jobs well, to drive value for this company, and to drive  
20 value for the claimants in these cases who are going to be  
21 the owners of the company.

22 With respect to categorization of insiders, again,  
23 I think this topic has been discussed ad nauseam and,  
24 frankly, I think Your Honor has already ruled on it. The  
25 vice presidents were excluded from the insider group for

1 very clear reasons. Although they occasionally speak to the  
2 board and they speak to senior executives at the company,  
3 they were not appointed by the board and they do not report  
4 directly to the board. So we have a very crisp set of  
5 criteria by which we determined who was and was not an  
6 insider that we think is very clearly supported by the case  
7 law on this topic.

8 So, unless Your Honor has any further questions,  
9 that's all that we had on the wages motion.

10 THE COURT: All right. I have before me a motion  
11 for a final order on the aspects of the so-called employee  
12 programs that the debtors have agreed to go forward on  
13 today, having adjourned, in agreement with their official  
14 creditors' committee and the ad hoc committee of certain  
15 states and territories, consideration of the aspect of those  
16 employee programs covered in paragraph 17 of the proposed  
17 order.

18 Most of the relief that the Court is being asked  
19 to consider today on a final basis is unopposed, the only  
20 exception is the United States Trustee's objection to two  
21 aspects of the employee programs.

22 The first is the continuation of the debtors'  
23 severance programs, including at the Treyburn facility,  
24 which the debtors will be closing sometime in November, but  
25 otherwise company-wide with the exception of ten employees,

1 who the debtors acknowledge and identify in footnote 4 to  
2 Mr. Lowne's supplemental declaration are insiders.

3 Secondly, the U.S. Trustee objects to the so-called market  
4 access ICP, which is an incentive program that would apply  
5 to six individuals.

6 As far as the severance Pickering continuation is  
7 concerned, this is a very narrow issue. In Section  
8 503(c)(2), Congress prohibited the payment of a severance  
9 payment to an insider of the debtor unless, and then sets  
10 forth two -- I'm sorry, two tests -- I'm sorry, a joint test  
11 that is very difficult to meet, and the debtors have  
12 acknowledged that they will cap any severance payment to an  
13 insider based on those very difficult to meet tests.

14 Otherwise, severance, if the program is a  
15 preexisting program, is subject to other applicable law.  
16 Obviously, if the program was adopted on the eve of the  
17 filing of the bankruptcy case or otherwise would appear to  
18 be questionable, then it would be subject to review, but if  
19 it has been long in place, as is the case here, it's subject  
20 to the general rules pertaining to the allowance and payment  
21 of administrative expenses.

22 There's been no suggestion that the severance  
23 program here, which is clearly described in Mr. Lowne's two  
24 declarations, is anything other than severance, i.e. a  
25 payment earned upon one's termination of employment and

1 subject to a lump-sum payment at that time.

2 Under the law of the Second Circuit, namely *In re*  
3 Bethlehem Steel, Corp., 479 F.3d 167 (2d Cir. 2007), which  
4 confirmed the applicability of a pre-Bankruptcy Code Second  
5 Circuit case, *Straus-Duparquet, Inc. v. Local Union No. 3*  
6 *International Brotherhood of Electrical Workers*, 386 F.2d  
7 649 (2d Cir. 1967), severance payments are entitled to  
8 administrative priority, as then-Circuit Judge Sotomayor  
9 ruled in dicta, but it was dicta essential to the analysis  
10 in that case and *In re Bethlehem Steel Corp.* at page 169.

11 So the only issue I believe before me is whether  
12 the parties to the severance program are insiders for  
13 purposes of Section 503(c)(2). I conclude based on the  
14 evidence before me that they are not. It appears to me that  
15 the debtors undertook their own analysis of who would be an  
16 insider under applicable law, as summarized in the debtors'  
17 pleadings, and most importantly that includes their ability  
18 to influence major decisions or make major decisions by the  
19 debtors, one or the other.

20 Congress enacted Section 503(c)(3) to prevent the  
21 management of debtors in bankruptcy from feathering their  
22 own nests. Almost implicit in that purpose is that if you  
23 don't have the ability to do that, you would not be an  
24 insider. The evidence before me makes it clear that the  
25 employees who would be covered by this motion do not have

1 that ability. This is not to say that they aren't important  
2 to the company, merely that they don't have the ability to  
3 feather their own nest or feather each other's nests in the  
4 decision-making process of management. See generally *In re  
5 Borders Group, Inc.*, 453 B.R. 459, 469 (Bankr. S.D.N.Y.  
6 2011), and in particular that court's focus on the actual  
7 responsibilities and decision-making authority that  
8 employees would have as opposed to their title.

9 So I will approve that aspect of the motion on a  
10 final basis, as well as the unopposed aspects of it.

11 As I said during our oral argument, I don't  
12 believe that the fact that certain employees at the Treyburn  
13 plant would receive both severance and be parties to the  
14 Treyburn retention plan, which no one has objected to,  
15 should invalidate the award of severance. Logically, if one  
16 were to believe there was undue compensation being paid  
17 under severance and the retention plan, you would modify the  
18 retention plan, but I believe that they really do serve  
19 different purposes. Almost by definition, a retention plan  
20 is necessary on top of severance, which the employee would  
21 be entitled to in any event, it is necessary to incentivize  
22 the employee to stay to do the critical functions for the  
23 company that are well detailed in Mr. Lowne's declarations.

24 The remaining objection is to the market access  
25 ICP incentive program. It does not appear to me to be

1 contested that any of the beneficiaries of this program are  
2 insiders, that the record clearly does not suggest that they  
3 are insiders.

4 So the analysis then is whether under Section  
5 503(c)(1) the incentive program is appropriate under the  
6 facts and circumstances of the case, or justified by the  
7 facts and circumstances of the case, in this circuit and  
8 elsewhere. That is involved in an analysis of the  
9 underlying business justifications for the program as  
10 originally laid out by Judge Lifland in *In re Dana Corp.*,  
11 358 B.R. 567, 576-77, (Bankr. S.D.N.Y. 2006), which in  
12 evaluating the business judgment underlying the program asks  
13 whether there's a reasonable relationship between the plan  
14 proposed and the results to be obtained; is the cost of the  
15 plan reasonable in the context of the debtor's assets,  
16 liabilities, and earning potential; is the scope of the plan  
17 fair and reasonable -- does it apply to the right people, in  
18 other words -- is the plan or proposal consistent with  
19 industry standards; what were the due diligence efforts of  
20 the debtor in investigating the need for the plan, including  
21 analyzing which key employees needed to be incentivized, and  
22 what is generally applicable in the particular industry; and  
23 did the debtor receive independent counsel in performing due  
24 diligence and in creating and authorizing the incentive  
25 compensation.

8                   First, this is a very narrowly tailored incentive  
9 program pertaining to only six people and, in the context of  
10 the debtors' assets and liabilities, appears to me to be  
11 more than manageable by the debtor in terms of its cost.

12 I believe from Mr. Lowne's testimony that the  
13 program was designed in a way that the debtors would not be  
14 overspending and rather that it is designed to properly  
15 incentivize these individuals to do what appears to me to be  
16 important work, where an incentive program is an important  
17 aspect of their compensation as opposed to a flat salary.

18                   The fact that these people are not insiders I  
19                   think highlights the fact that -- or should highlight the  
20                   fact that the debtors in proposing the program have no  
21                   motivation to overpay and rather to design something that  
22                   will be properly motivating to the employees without  
23                   overcompensating them.

24 The U.S. Trustee properly points out that Mr.  
25 Lowne could not testify that in each instance the aggregate

1 compensation here, including the metrics for the bonus plan,  
2 are in line with or consistent with the debtors'  
3 competitors. He did states, however, that competitors'  
4 programs were taken into account in setting the metrics, in  
5 addition to these individuals' salaries, and pointed out  
6 that it is -- at least this is what I took away from his  
7 testimony -- it is hard to say that there is any true  
8 comparator to these debtors given the adverse publicity that  
9 these debtors have received and that these six individuals  
10 have to contend with in working with managed care groups and  
11 wholesalers.

12 So, consistent with the Dana case that I cited, as  
13 well as the Borders Group case that I cited, and In re  
14 Residential Capital, 491 B.R. 73 (Bankr. S.D.N.Y. 2013), I  
15 believe that the debtors have established a sufficient  
16 business justification for the incentive program.

17 The other objection was based on a concern and,  
18 again, a legitimate concern, which I think is also behind  
19 the objections to the adjourned matters with regard to this  
20 motion, that all want to be sure that an incentive program  
21 does not incentivize people to cause the sale of the  
22 debtors' opioid products to occur in a way that's harmful to  
23 society and, therefore, to the debtors themselves. It  
24 appears to me, based on the record before me, that that is  
25 not the case and that the sales practices that these six

1 people will be assisting in are to be legitimate, subject to  
2 applicable law, and, in addition to that, the debtors' own  
3 additional best practices. So that if any of these  
4 individuals fail to comply with those things, not only would  
5 they face other consequences, but they wouldn't be entitled  
6 to these bonuses.

7 As I noted earlier, the debtors' opioid products  
8 are legal and, when prescribed properly and with proper  
9 controls, beneficial. And therefore, if the incentives are  
10 tied to the proper marketing of those products, that would  
11 be beneficial to not only the debtors, but society.

12 The same consideration applies to an argument that  
13 actually wasn't made during oral argument and is only  
14 implicit in the U.S. Trustee's objection generally, which is  
15 a suggestion of the possibility that certain people who  
16 would be covered by the severance program under this motion  
17 had themselves engaged in improper conduct in the past.

18 The testimony in that regard was to the negative,  
19 albeit qualified by Mr. Lowne's statements that he doesn't  
20 know for sure. But it appears to me that not having any  
21 evidence along the lines that the U.S. Trustee suggested  
22 would warrant rethinking any of these employee programs, it  
23 would be a bad exercise of business judgment simply to  
24 withhold payments of severance and in fact to insiders it  
25 would be, I believe, contrary to applicable law. As I said

earlier, any rights that the debtors have against employees  
for their improper conduct are clearly preserved,  
notwithstanding the entry of this order, if that's ever  
shown. And that would include, by the way, a setoff of  
course, but there's really no record that such claims exist  
as to any particular person.

7 So I will grant the motion as revised and overrule  
8 the U.S. Trustee's objection. Obviously, one of the  
9 revisions is to preserve the objection as to the remaining  
10 items covered by paragraph 17, but I'll overrule the  
11 objection as to the matters I'm approving today.

12 So you can email that order to chambers once it's  
13 marked up, as well as the other several orders that I have  
14 approved.

15 MR. VONNEGUT: Thank you very much, Your Honor,  
16 we'll do that.

17 THE COURT: Okay, very well. Thank you.

18 MR. VONNEGUT: Thank you. Well, unless my  
19 colleague Mr. Robertson is going to tell me otherwise, I  
20 think that concludes the agenda for today.

21 THE COURT: Okay, very well. Thank you.

22 MR. VONNEGUT: Thank you very much, Your Honor.

23 (Proceedings concluded at 12:50 p.m.)

24 \* \* \* \* \*

1	I N D E X	
2	R U L I N G S	
4	DESCRIPTION	PAGE
5	Motion of Debtors for entry of Interim and	
6	Final Orders Authorizing (I) Debtors to Pay Certain	
7	Prepetition Taxes, Governmental Assessments and Fees	
8	and (II) Financial Institutions to Honor and Process	
9	Related Checks and Transfers (ECF 8)	52
10		
11	Motion of Debtors for Entry of Interim and Final Orders	
12	Authorizing (I) the Debtors to Continue and Renew Their	
13	Liability, Property, Casualty and Other Insurance	
14	Policies and Honor all Obligations in Respect	
15	Thereof and (II) Financial Institutions to Honor and	
16	Process Related checks and Transfers (ECF 10)	54
17		
18	Motion of Debtors for Entry of Interim and Final Orders	
19	Authorizing the Debtors to Continue and Renew Surety	
20	Bond Program (ECF 12)	56
21		
22		
23		
24		
25		

1 | INDEX

# 2

# 3 R U L I N G S

**4** | **DESCRIPTION** **PAGE**

5	Motion of Debtors for Entry of Interim and	
6	Final Orders (I) prohibiting Utilities From Altering,	
7	Refusing or Discontinuing Service, (II) Deeming	
8	Utilities Adequately Assured of Future Performance and	
9	(III) Establishing Procedures for Determining	
10	Requests for Additional Adequate Assurance (ECF 7)	57
11		
12	Motion of Debtors for Entry of Interim and Final Orders	
13	Authorizing (I) Debtors to Honor Prepetition	
14	Obligations to Customers and Related Third Parties	
15	and to Otherwise Continue Customer Programs (II)	
16	Relief from Stay to Permit Setoff in Connection with the	
17	Customers and Programs and (III) Financial	
18	Institutions to Honor and Process Related Checks and	
19	Transfer (ECF 11)	58
20		
21	Motion of Debtors for Entry of Interim and Final Orders	
22	Authorizing (I) Payment of Certain Prepetition	
23	Claims of Critical Vendors and (II) Financial	
24	Institutions to Honor and Process Related Checks and	
25	Transfers (ECF 9)	61

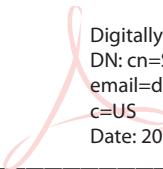


1 C E R T I F I C A T I O N

2

3 We, Sheila Orms, Tracey Williams and Jamie Gallagher,  
4 certify that the foregoing transcript is a true and accurate  
5 record of the proceedings.

6 **Sheila**  
7 **Orms**



Digitally signed by Sheila Orms  
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14 **Gallagher**



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19 Date: October 12, 2019

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Page 1

&	140,000 19:17 15th 8:17 167 116:3 168,000 97:2 169 116:10 17 105:14 114:16 122:10 17120 8:18 180 17:25 18:3 42:13 46:8 187 20:3 18th 50:1 19 19:23 90:25 19-23649 1:3 190 2:15,18 1967 116:7 197 2:21 199,000 20:4 1995 21:3,5,9 10036 5:15 8:9 10036-6745 7:17 1006 6:20 10601 1:15 108,972 93:2 10:06 1:18 11 4:10 10:14 15:17 22:7,11 36:11 49:4 124:19 11's 10:16 114 125:12 11501 126:24 1177 5:14 12 3:20 20:16,24 123:20 126:19 12.05 21:8 120 42:7 12:50 122:23 13 66:10 134 2:12 14 59:18 60:7 78:7 78:8,13,16,21 79:2,8 94:16 105:21	2018 19:13,18,23 20:1 21:3,5 2019 1:17 16:3 20:1 27:13 29:10 34:7 92:4 93:1 96:25 97:3 126:19 2020 93:2 20th 100:11 23 11:3 32:21 40:3 23,056 93:3 236 65:10 24 10:9 11:25 22:9 32:21 35:24 25 13:9 21:2,3,5,6 67:11,12,16 97:21 98:16 250 57:2 251 58:8 252 50:3 253 52:10 254 55:10 255 59:12 256 62:1 99:12 270 17:25 42:15 273,000 97:3 28 40:3 28,000 97:2 29th 79:9 2d 116:3,7 2nd 79:10	386 116:6 4 4 12:19 13:4 55:7 56:9 69:16 70:2,5 70:9,11,14 71:4 71:13,25 72:18 73:7 74:17 75:20 105:17 115:1 4.5 12:22 4.6 12:15 40 20:9 410 21:8 43 14:18 450 5:4 453 117:5 459 117:5 469 117:5 479 116:3 48 21:9 491 120:14 5 5 13:4 52:22,24 53:11 56:23 5.75 21:7 5.9 21:6 50 67:11,15 97:17 101:9 102:5 103:25 104:10 50,000 113:14 50/50 12:23 500 6:12 46:15 503 94:12 115:8 116:13,20 118:5 52 21:9 92:25 94:4 95:1 123:9 521,058 93:1 52nd 6:4 7:9 53 44:6 53701 6:13 54 123:16 55 5:22 550 18:16
1	122:10 17120 8:18 180 17:25 18:3 42:13 46:8 187 20:3 18th 50:1 19 19:23 90:25 19-23649 1:3 190 2:15,18 1967 116:7 197 2:21 199,000 20:4 1995 21:3,5,9 80:10 1996 72:24 73:8 73:14 77:9,20 1st 53:3 79:9 106:7	250 57:2 251 58:8 252 50:3 253 52:10 254 55:10 255 59:12 256 62:1 99:12 270 17:25 42:15 273,000 97:3 28 40:3 28,000 97:2 29th 79:9 2d 116:3,7 2nd 79:10	5
2	2 94:12 99:18 115:8 116:13 2.4 12:21 200 54:5 2001 72:24 73:9 73:14 77:9,21 80:10 2005 77:12 2006 118:11 2007 74:4,19 75:23 76:13 77:12 77:17 80:11 116:3 201 2:24 6:20 2011 117:6 2013 120:14 2014 93:19 2017 19:18,21,22 20:2	3 12:10,11,15,18 13:1,4 20:11 23:1 52:7 56:8 57:6,22 116:5,20 30 46:8 300 1:14 126:23 31 6:4 7:9 312.6 19:23 330 126:22 358 118:11 366 57:19	3 12:10,11,15,18 13:1,4 20:11 23:1 52:7 56:8 57:6,22 116:5,20 30 46:8 300 1:14 126:23 31 6:4 7:9 312.6 19:23 330 126:22 358 118:11 366 57:19
3			

[56 - affirmatively]

Page 2

<b>56</b> 123:20	<b>97.6</b> 12:21	<b>acknowledged</b>	124:10
<b>567</b> 118:11	<b>99</b> 3:3 38:9	45:24 72:22,23	<b>address</b> 14:21
<b>57</b> 124:10	<b>a</b>	73:18 104:13,13	15:6,9 18:22
<b>576-77</b> 118:11	<b>a.m.</b> 10:23,23	106:12 115:12	21:23 26:20 27:1
<b>58</b> 124:19	63:12	<b>acknowledges</b>	35:6 43:8 59:23
<b>6</b>	<b>abate</b> 29:4	100:19	61:17 86:5,15
<b>6</b> 2:10 13:10 58:3	<b>ability</b> 44:21	<b>acknowledging</b>	107:17
61:24 125:12	76:10 116:17,23	106:19	<b>addressed</b> 26:13
<b>61</b> 124:25	117:1,2	<b>acquisition</b> 92:16	46:9 54:17,24
<b>62</b> 61:25	<b>able</b> 11:9 15:17	<b>act</b> 110:5,6	65:8 84:25
<b>63</b> 59:11	47:25 83:1 95:13	<b>action</b> 31:8 37:11	<b>addressing</b> 74:7
<b>64</b> 57:1	99:2 110:8	37:15	<b>adduced</b> 101:8
<b>649</b> 116:7	<b>absolute</b> 23:1	<b>actions</b> 18:10,15	<b>adequate</b> 4:1 43:1
<b>65</b> 50:1	<b>abstinence</b> 27:18	22:3 74:4,19	57:7,16 124:10
<b>66</b> 52:9 125:18	<b>accelerate</b> 51:10	75:21 76:12 100:6	<b>adequately</b> 3:24
<b>660,000</b> 94:17	51:16	100:11	124:8
<b>67</b> 58:7	<b>acceleration</b>	<b>active</b> 30:25 31:2	<b>adhansia</b> 67:11
<b>68</b> 55:9	99:19	31:5 59:1	82:21 96:1,3
<b>6th</b> 63:11,20	<b>accepted</b> 59:21	<b>actively</b> 42:22	97:15 98:14
111:20	60:12 79:7	<b>activities</b> 74:18	<b>adhd</b> 96:2
<b>7</b>	<b>access</b> 25:7 64:14	77:16 87:15 92:13	<b>adhoc</b> 2:20
<b>7</b> 4:2 10:23 59:10	66:13 67:3,21,24	<b>actual</b> 10:12 90:9	<b>adjourned</b> 114:13
124:10	81:16 82:17 95:20	117:6	120:19
<b>70</b> 27:4	96:4,9,12,13,21	<b>ad</b> 5:13 6:2 7:8	<b>adjustment</b> 119:7
<b>70,000</b> 19:18	97:5 102:7 103:15	9:2 11:2 13:19	<b>administrative</b>
<b>73</b> 120:14	105:23 107:7	15:12 17:21 20:12	2:7 59:22 115:21
<b>8</b>	113:12 115:4	24:15 25:6 32:20	116:8 125:8
<b>8</b> 3:9 123:9	117:24	39:9 40:5,6 42:4	<b>admitted</b> 65:13
<b>80</b> 125:19	<b>accomplished</b>	43:11,19 44:4,7	69:18 75:20
<b>83</b> 125:20	39:13	50:13,19 52:11	<b>adopted</b> 115:16
<b>85</b> 13:23 34:12	<b>accomplishment</b>	56:2 57:4 58:10	<b>advance</b> 10:13
38:10 125:21	41:19	58:15 59:15 60:3	53:12
<b>85.8</b> 38:13	<b>account</b> 10:21	62:4,19 111:5	<b>advancement</b>
<b>86</b> 13:23 18:2	59:24 120:4	113:23 114:14	63:17
34:12 38:10	<b>accounts</b> 96:11	<b>add</b> 59:18 101:22	<b>adverse</b> 107:20
<b>9</b>	<b>accurate</b> 19:6	<b>added</b> 52:17	120:8
<b>9</b> 4:15 13:8 99:21	126:4	<b>addition</b> 13:1	<b>advisor</b> 27:11
124:25	<b>achieve</b> 34:2 36:3	47:14 58:13 60:1	<b>advisors</b> 26:18
<b>9-11</b> 47:10	39:23 40:19 41:24	60:7 78:18 120:5	62:9
<b>90</b> 16:6	100:11	121:2	<b>advocacy</b> 31:1
<b>90/10</b> 12:12	<b>acknowledge</b> 74:1	<b>additional</b> 4:1	<b>affairs</b> 85:1 90:17
	115:1	12:23 23:1 65:7	<b>affirmatively</b>
		100:15 121:3	91:18

[agencies - asked]

Page 3

<b>agencies</b> 91:15 92:21	<b>allocation</b> 29:18 32:13 34:4 48:21	<b>answer</b> 68:23 72:7 72:9,12 75:6	<b>approaching</b> 26:21 32:10
<b>agenda</b> 2:1 18:23 23:21 36:20 48:7 49:20 50:21 52:6 55:6 56:23 58:3 59:9 61:18,23,23 65:5 122:20	<b>allow</b> 20:17 22:5 23:8 36:6 37:4 41:13 42:13	<b>answered</b> 104:6 104:12,24	<b>appropriate</b> 10:17 21:16 29:18 30:23 31:8 43:7 43:21 59:5 67:25
<b>agent</b> 47:10 48:19	<b>allowable</b> 38:11	<b>answering</b> 103:8	82:15,23 99:5 118:5
<b>aggregate</b> 119:25	<b>allowance</b> 38:18 115:20	<b>anybody</b> 38:15 63:10 65:11	<b>approval</b> 13:18 37:19 63:20 64:2 64:24 67:5 95:10
<b>ago</b> 11:1 20:21 27:7 32:24	<b>allowed</b> 100:10	<b>apart</b> 58:9 59:14 97:15	<b>approve</b> 42:12 117:9
<b>agree</b> 109:8 113:6	<b>allowing</b> 23:18	<b>apc</b> 9:8	<b>approved</b> 14:12
<b>agreed</b> 11:6 31:4 31:7 32:23 39:24 53:1,2 55:13 56:1 58:13,15 59:17 60:1,14 63:10 64:1 111:12,19 112:8 114:12	<b>allows</b> 82:23 83:9	<b>apologize</b> 24:6 44:9 66:12,21 70:2 103:21	14:16 33:10,12 63:24 97:11 122:14
<b>agreeing</b> 12:4 91:1	<b>altered</b> 93:20	<b>apparently</b> 15:5	<b>approving</b> 49:25 52:8 55:7 56:24 58:5 59:10 122:11
<b>agreement</b> 11:2 11:12 13:21 17:8 38:10 41:14 42:7 42:13 62:15 100:20 111:4,6,11 114:13	<b>altering</b> 3:23 124:6	<b>appear</b> 115:17 117:25	<b>approximately</b> 19:17 20:3,20 21:8 27:4 93:2 97:1
<b>agreements</b> 21:16 45:24 62:20	<b>alternative</b> 107:22	<b>appearing</b> 26:1	<b>area</b> 14:11
<b>agrees</b> 15:20	<b>ambiguous</b> 60:10	<b>appears</b> 116:14 119:10,15 120:24 121:20	<b>arena</b> 31:1,2
<b>ahead</b> 14:23 26:8 46:6 75:16	<b>ameliorate</b> 23:12	<b>applaud</b> 45:4 62:8	<b>argue</b> 44:13
<b>akin</b> 7:14 25:11 25:24	<b>amenable</b> 108:19	<b>applicability</b> 116:4	<b>arguing</b> 44:12
<b>al</b> 1:7 10:3	<b>amended</b> 49:19 93:20 100:17	<b>applicable</b> 56:14 57:19 115:15 116:16 118:22 121:2,25	<b>argument</b> 27:1 117:11 119:7 121:12,13
<b>albeit</b> 121:19	<b>amount</b> 12:24 48:21 55:20 57:7	<b>applies</b> 64:8,15 88:15 105:16,21 121:12	<b>arik</b> 25:23
<b>alberto</b> 7:5	<b>amounts</b> 53:12 56:13 101:5	<b>apply</b> 75:3 115:4 118:17	<b>arising</b> 56:13
<b>align</b> 97:7	<b>analysis</b> 25:1 116:9,15 118:4,8	<b>applying</b> 79:6	<b>arizona</b> 2:23
<b>allay</b> 86:18	<b>analytical</b> 93:5,9	<b>appointed</b> 47:19 47:20 114:3	<b>arkansas</b> 6:10
<b>allocated</b> 29:1 33:25	<b>analyzing</b> 118:21	<b>appreciate</b> 30:24 44:25 46:5 51:25 110:23	<b>arsenal</b> 31:18
	<b>anderson</b> 54:1	<b>approach</b> 19:7 30:22 62:20 102:20	<b>articles</b> 15:4
	<b>andrew</b> 6:7 7:12 44:4		<b>aside</b> 32:6
	<b>anesthetists</b> 90:11		<b>asked</b> 31:4 33:2 63:6 70:20 80:9 81:1 83:18 100:2 103:20 104:12,24
	<b>ank</b> 7:20		
	<b>annual</b> 63:12 79:24 94:7		

[asked - best]

Page 4

114:18	<b>attorneys</b> 5:3,13	<b>b</b>	117:10
<b>asking</b> 15:4 63:23	5:21 6:2,10,19 7:2	<b>b</b> 1:22 2:5 125:7	<b>bayard</b> 7:1 27:11
71:1 88:19 100:3	7:8,15 8:2,7,14	<b>b.r.</b> 117:5 118:11	<b>beacon</b> 8:2
100:7,17	9:2	120:14	<b>bearing</b> 10:25
<b>asks</b> 118:12	<b>audible</b> 72:10	<b>back</b> 17:6 19:24	<b>bears</b> 16:9 32:4
<b>aspect</b> 114:15	<b>august</b> 92:4	20:8 48:18 54:6	<b>beat</b> 44:10
117:9 119:17	<b>authorities</b> 19:18	72:18 92:5 100:4	<b>becoming</b> 29:7
<b>aspects</b> 85:2	<b>authority</b> 11:11	100:8,10	<b>beginning</b> 49:13
114:11,21 117:10	117:7	<b>background</b>	111:24
<b>assert</b> 28:16	<b>authorize</b> 51:9	101:3,14	<b>begun</b> 43:13,16
<b>asserted</b> 28:14,16	62:25	<b>bad</b> 121:23	<b>behalf</b> 10:8 49:17
<b>asserting</b> 28:15	<b>authorized</b> 63:14	<b>badgering</b> 104:23	55:5 61:21 74:22
<b>assessments</b> 3:7	63:18,19 64:23	<b>badly</b> 98:24	111:2
123:7	<b>authorizing</b> 2:4	<b>banker</b> 27:12	<b>behavior</b> 82:3
<b>asset</b> 15:19	3:6,12,19 4:5,13	<b>bankr</b> 117:5	<b>behoove</b> 36:5
<b>assets</b> 11:25 15:8	118:24 123:6,12	118:11 120:14	<b>belabor</b> 112:14
15:18 16:16 18:6	123:19 124:13,22	<b>bankruptcy</b> 1:1	<b>belief</b> 76:3,5
22:11,17 40:22	125:5	1:13,24 12:6 22:1	<b>believe</b> 17:14 20:8
46:11,24 47:15,17	<b>automatic</b> 94:10	22:12,15 46:24	35:4 37:10,13,14
118:15 119:10	<b>available</b> 67:25	47:2 48:2,4,19	37:24 50:3 52:14
<b>assistance</b> 30:14	85:20 87:17 89:13	93:21 94:12	76:10 78:16,22
<b>assisting</b> 121:1	91:15 98:22 99:5	115:17 116:4,21	79:22 81:11 97:5
<b>assuming</b> 13:9	101:19 112:19	<b>bar</b> 18:1	98:20 116:11
15:20 106:18	113:3	<b>based</b> 52:2 54:16	117:12,16,18
<b>assumption</b> 91:8	<b>avenue</b> 5:4,14	56:20 57:17 58:22	119:1,4,12 120:15
<b>assurance</b> 4:2	<b>average</b> 68:8,17	61:11 67:9,12	121:25
57:7,16 103:4	68:21 97:2	88:20 96:4 97:13	<b>bench</b> 45:11
124:10	<b>avoid</b> 29:7,18	97:23 104:14	<b>benchmark</b> 68:19
<b>assure</b> 41:21	34:20	110:6 115:13	<b>benchmarks</b>
43:12	<b>avoidance</b> 18:16	116:13 120:17,24	68:13
<b>assured</b> 3:25	100:6,11	<b>bases</b> 106:1	<b>beneficial</b> 121:9
124:8	<b>avoiding</b> 62:15	<b>basic</b> 62:21	121:11
<b>attaches</b> 18:17	<b>award</b> 117:15	<b>basically</b> 106:3	<b>beneficiaries</b>
<b>attempt</b> 18:9	<b>aware</b> 18:13	108:2	118:1
42:15 90:20	24:11,12 29:6	<b>basis</b> 50:1 51:5	<b>benefit</b> 13:16
<b>attempted</b> 99:25	64:25 68:4 70:18	52:8 55:8 56:6,11	18:18 22:23 27:21
<b>attempting</b> 81:6	72:18,24 73:1,4	56:21,25 57:14	37:16 82:24 83:8
<b>attention</b> 19:2	73:17,20 74:2,3	58:6,22 59:5,11	83:10
43:20 78:5	77:8,11,23 79:2,4	61:11 62:25 63:19	<b>benefits</b> 2:5,6
<b>attorney</b> 6:2	86:4 88:13	63:20 64:23 66:14	62:21 67:14 78:14
21:25 47:22 66:4	<b>azura</b> 27:16	76:18 85:8 96:18	125:7,8
<b>attorney's</b> 24:18		100:7 105:24	<b>best</b> 14:23 37:11
		113:5 114:19	37:14 46:18,21

[best - cases]

Page 5

47:11 76:10,14 87:3,20 88:5,10 88:22 97:9 100:12 102:1 108:11,15 109:7 121:3 <b>bethlehem</b> 106:12 116:3,10 <b>better</b> 16:22 17:1 37:22 66:18 69:18 78:14 107:22 108:5 <b>beyond</b> 63:24 87:2 95:24 <b>big</b> 34:25 <b>billion</b> 12:10,11 12:13,15,15,19,20 12:22 13:1,4,8,11 20:11,16,24 21:6 21:7,9 23:1 46:15 <b>billions</b> 11:25 13:3 22:4,9,21,24 23:4,10 41:2 <b>binders</b> 50:3 <b>binding</b> 48:3 <b>bit</b> 28:1 <b>blacklines</b> 50:3 <b>blindfolds</b> 110:5 <b>blocks</b> 95:25 <b>blue</b> 27:20,20 48:12 89:14,14 <b>blueprint</b> 17:4 45:15 47:14 48:24 <b>board</b> 18:12 76:17 76:21,22,23 77:2 109:15,19 114:2,3 114:4 <b>boards</b> 109:16 110:5,8 <b>boca</b> 27:21 <b>bond</b> 3:20 56:13 123:20 <b>bonds</b> 55:20,21	<b>bones</b> 11:8 <b>bonus</b> 67:4 94:7 103:14 104:1,14 104:17 108:14 111:25 120:1 <b>bonuses</b> 63:14 67:17 104:9 121:6 <b>borders</b> 117:5 120:13 <b>born</b> 27:18 28:5 <b>borrowed</b> 19:22 <b>bottom</b> 36:13 56:9 <b>bound</b> 35:20 <b>bp</b> 47:10 <b>brady</b> 6:15 <b>branded</b> 81:23 82:6,18 91:4 <b>brauner</b> 7:23 <b>break</b> 42:1 109:12 <b>breathlessly</b> 20:24 <b>brevity</b> 19:12 <b>brian</b> 6:24 <b>brief</b> 21:21 24:4 72:19,22 73:2,19 89:23 <b>briefly</b> 18:4,22 21:21 24:3 39:12 93:22 95:6 112:12 <b>briefs</b> 72:21 <b>bright</b> 90:12 <b>bring</b> 37:15 <b>broad</b> 40:20 41:23 70:16 <b>broadly</b> 32:11 <b>brogan</b> 7:4 <b>bromberg</b> 9:11 <b>brotherhood</b> 116:6 <b>brought</b> 119:5 <b>brown</b> 9:1 <b>brush</b> 70:16	<b>bryant</b> 7:16 <b>buchalter</b> 9:8 <b>building</b> 43:20 95:25 <b>built</b> 94:11 <b>bulk</b> 99:15 <b>burdening</b> 62:16 <b>business</b> 33:20 35:8,9 41:2 62:5 64:2 70:23 87:21 92:22 95:16,23,24 97:25 102:9 106:3 112:18 118:9,12 120:16 121:23 <b>businesses</b> 12:4,8 12:10 13:8 87:22 <b>busy</b> 63:5 <b>buy</b> 111:23 <b>buyer</b> 92:5 <b>bypoint</b> 29:3	<b>cara</b> 27:19 <b>card</b> 99:22 100:9 <b>care</b> 67:8,20,23 82:17,19 84:3,4,9 84:20 85:1,4 88:6 89:25 90:4 96:12 98:10 99:3 101:17 120:10 <b>career</b> 10:20 <b>carefully</b> 21:12 86:8 <b>caremark</b> 27:23 <b>carolina</b> 92:2 <b>carrier</b> 27:20 <b>carriers</b> 26:17 28:5 <b>carroll</b> 54:1 <b>case</b> 1:3 13:22 16:2,15,24 17:5 18:2,25 21:20 25:5,18 26:11,11 26:22,22 27:17 28:2 30:4,5,21 31:6,6,12,14,16 32:5,10,12 33:13 33:22 34:2,9,11 34:13 35:13,14 36:6,8,14 37:4,25 38:19 39:16,16,22 40:17 41:7,13 42:16,19,21 43:8 43:14,19,25 45:4 45:11,15,19 46:2 47:1 50:10 57:11 57:19 60:9,10,23 63:4,4 79:1 86:6 108:8 110:19,23 111:14,15,21 114:6 115:17,19 116:5,10 118:6,7 120:12,13,25 <b>cases</b> 10:14 16:6 29:8 42:2 47:9
<b>c</b>			

## [cases - committee]

Page 6

48:19 62:13 111:23 113:20 <b>cash</b> 13:3 19:20 21:7 23:1 24:10 <b>cast</b> 38:21 <b>casualty</b> 3:13 123:13 <b>categories</b> 18:17 <b>categorization</b> 113:22 <b>category</b> 63:2 82:16 99:20 <b>causation</b> 28:19 <b>cause</b> 23:9 37:11 120:21 <b>caused</b> 41:3 75:20 76:12 78:2 <b>causes</b> 37:15 <b>causing</b> 109:19 <b>cbs</b> 27:23 <b>cdc</b> 87:4 <b>cease</b> 101:19 <b>ceased</b> 14:15 <b>ceaseless</b> 19:2 <b>ceo</b> 77:3,7 109:23 <b>certain</b> 3:6 4:13 9:12 30:11,25 34:8 110:17 114:14 117:12 121:15 123:6 124:22 <b>certainly</b> 18:8 48:18 59:7 68:19 73:15 77:5 82:2 84:8 <b>certainty</b> 113:11 <b>certify</b> 126:4 <b>cetera</b> 39:1 60:13 88:19 <b>cfo</b> 77:4 109:23 <b>challenging</b> 113:17	<b>chambers</b> 54:6,23 56:16 57:25 122:12 <b>change</b> 52:2 56:17 99:20 <b>changed</b> 107:14 <b>changes</b> 50:4,25 51:1 55:25 56:3 58:12,17 59:25 60:3 97:12 99:16 <b>channels</b> 80:22 82:11 <b>chapter</b> 10:14,16 15:17 22:2,7,11 36:11 49:4 <b>charged</b> 80:13 <b>checking</b> 98:9 <b>checks</b> 2:10 3:8 3:16 4:10,15 123:9,16 124:18 124:24 125:11 <b>cheryl</b> 27:16 <b>chief</b> 65:9 <b>children</b> 26:17 27:18 28:5 <b>choices</b> 32:5 <b>choose</b> 90:20 <b>chop</b> 17:7 <b>chose</b> 27:6 <b>chosen</b> 14:12 23:15 <b>christopher</b> 5:8 49:16 55:4 <b>cir</b> 116:3,7 <b>circuit</b> 106:10 116:2,5,8 118:7 <b>circumstances</b> 86:22 95:18 113:16 118:6,7 <b>cited</b> 120:12,13 <b>cities</b> 28:12 40:5,8 <b>claim</b> 28:7 38:15 38:18 48:16 54:10	<b>claimants</b> 9:3 11:21 13:22 15:1 22:18,24 27:15,16 28:1 40:24 46:19 113:20 <b>claims</b> 2:8 4:13 23:4,7 28:6,7,15 28:17,21,22 33:18 34:24 37:21 38:11 40:14 46:20,25 47:16 48:13,20 53:9 54:12 59:24 122:5 124:23 125:10 <b>clarification</b> 57:5 64:19 98:12 <b>clarifying</b> 85:12 <b>clarity</b> 41:10 <b>class</b> 28:7 <b>clause</b> 22:23 51:15 <b>cleaned</b> 92:18 <b>clear</b> 12:17 13:12 14:2 15:11 18:11 22:5 24:23 29:9 30:17 45:8 64:21 65:3 89:8 94:8 96:15 100:9 105:1 105:4 108:25 109:9 110:19 112:17 114:1 116:24 119:2 <b>clearly</b> 16:4 17:18 84:2 109:9 114:6 115:23 118:2 122:2 <b>cleavage</b> 88:25 90:12 <b>clock</b> 10:11 11:1 112:22 <b>close</b> 22:8 91:5 93:17	<b>closing</b> 22:3 114:24 <b>coby</b> 11:4 <b>code</b> 22:12,15 30:20 48:2 94:12 116:4 <b>collaboratively</b> 38:1 <b>collateral</b> 53:5,9 54:11 <b>colleague</b> 48:9 61:16 122:19 <b>collectively</b> 40:11 <b>combat</b> 35:3 <b>combatting</b> 26:14 37:20 <b>come</b> 36:7 65:19 93:17 <b>comes</b> 34:10 <b>comfort</b> 15:15 48:24 63:1 64:12 64:17 90:22 99:24 <b>comfortable</b> 25:5 43:6 62:6 63:9 93:16 101:4 <b>coming</b> 33:14 47:6,14 50:18 87:4 109:19 <b>comment</b> 25:18 <b>comments</b> 23:18 44:23 50:24 52:11 55:12 58:9,11 59:14 113:6 <b>commercial</b> 70:22 <b>committed</b> 12:25 32:7 <b>committee</b> 5:13 6:3 7:2,15 9:2 13:25 15:12,13,25 16:1,8 17:21 18:12 24:15,15,16 25:6,12,24 26:10 26:18 27:5,9,14
--	--	---	---

[committee - contain]

Page 7

27:15 29:22,23 30:2,6,8,9,11,12 30:16,19,22,25 31:4,8,11,13,20 31:24,25 32:1,22 33:4 35:22 36:25 39:10 40:5,7,7 42:5,6 43:2,11,17 43:20 44:14 47:18 47:21 50:13,13,20 52:12 56:2,2 57:4 57:5 58:10,14,15 59:15 60:2,3 62:3 62:4,19,19 111:6 114:14,14 <b>committees</b> 30:3 58:16 <b>commonwealth</b> 2:17 8:13,14 111:2,3,7 <b>communication</b> 30:18 <b>companies</b> 11:25 13:2 14:11 45:20 47:7 87:12 89:4 101:22 <b>company</b> 8:2,7 19:22 20:5 21:2 22:3,8 52:15,25 55:11 64:3 70:9 72:5 73:3 75:22 75:25 76:13 77:18 78:3 79:23 82:18 84:16 87:15 88:9 88:16 90:19 93:18 96:3,17 97:19 98:1 101:16 102:9 104:14,16 107:24 108:5,18 112:10 113:13,15,19,21 114:2,25 117:2,23 <b>company's</b> 92:9 99:22 102:1	108:11,15 112:18 <b>comparator</b> 120:8 <b>compared</b> 68:13 <b>compensate</b> 29:4 <b>compensated</b> 66:14 67:5 96:18 <b>compensation</b> 2:5 2:8 62:23 63:8 67:9,10 68:7,13 68:14,15 107:8 117:16 118:25 119:17 120:1 125:7,10 <b>competing</b> 61:6 90:20 <b>competitors</b> 120:3 120:3 <b>comping</b> 113:14 <b>complete</b> 16:18 63:7 92:6 <b>completed</b> 64:10 <b>completely</b> 24:11 109:8 <b>completion</b> 21:15 92:11 95:8 <b>complex</b> 19:7 62:5 63:7 <b>complexity</b> 16:12 16:25 <b>complies</b> 88:9 <b>comply</b> 108:11 121:4 <b>component</b> 95:22 98:15,22 <b>comprises</b> 40:12 <b>compromise</b> 32:16 <b>concern</b> 106:23 110:9,13 120:17 120:18 <b>concerned</b> 29:23 59:5 95:11 115:7	<b>concerns</b> 14:20 86:18 <b>conclude</b> 116:13 <b>concluded</b> 38:17 122:23 <b>concludes</b> 81:11 122:20 <b>conclusions</b> 105:8 <b>conduct</b> 14:15 21:20 105:7 121:17 122:2 <b>conducts</b> 87:15 <b>confidence</b> 43:6 <b>confidential</b> 17:12 <b>confidentiality</b> 21:16 <b>confirmable</b> 43:23 <b>confirmation</b> 52:19 <b>confirmed</b> 33:10 50:5 116:4 <b>conforming</b> 50:25 56:3 58:16 60:3 <b>confusion</b> 57:23 64:20 94:9 <b>congress</b> 115:8 116:20 <b>conjunction</b> 93:20 <b>connected</b> 72:3 73:7,10 74:19 75:21 76:11 77:17 <b>connection</b> 4:8 20:6 21:12 45:5 77:18 80:12 96:6 105:18 124:16 <b>connects</b> 22:8 <b>consensual</b> 34:3 45:12 <b>consensus</b> 34:22 40:20 43:21 50:18 <b>consent</b> 2:21	<b>consenting</b> 7:8 9:2 39:10 44:5 <b>consequences</b> 107:20 121:5 <b>conservative</b> 90:16 <b>consider</b> 19:7 45:17 91:15 114:19 <b>consideration</b> 111:19 114:15 121:12 <b>considered</b> 35:13 <b>considering</b> 35:11 <b>consistent</b> 30:19 37:2 51:19 57:18 59:3 118:18 120:2 120:12 <b>consists</b> 40:8 <b>consolidating</b> 92:2 <b>consolidation</b> 64:9 92:6 95:9 <b>constituencies</b> 10:22 25:4 39:22 40:17 41:23 43:25 <b>constituents</b> 63:6 65:6 <b>constitute</b> 91:3 <b>constitutes</b> 18:23 <b>constitution</b> 48:3 <b>constraints</b> 87:3 <b>constructive</b> 17:4 62:10 <b>consultation</b> 56:1 58:14,24 59:2 60:2 <b>consulted</b> 42:22 <b>consuming</b> 29:19 <b>contact</b> 30:8 90:5 <b>contacted</b> 30:3 <b>contain</b> 48:24
---	---	---	---

## [contains - creditors]

Page 8

<b>contains</b> 11:18 13:14	<b>convicted</b> 73:21 73:24 80:14	<b>coupled</b> 91:1	102:21 103:1,7
<b>contemplate</b> 41:25	<b>convincing</b> 33:11 33:13	<b>course</b> 11:15 13:1	104:12,16,19,22
<b>contemplated</b> 78:10	<b>coo</b> 77:4 109:23	13:19 14:25 16:1	104:24 105:3,8,8
<b>contemplates</b> 16:16 41:9 42:3 42:14,20	<b>cooperate</b> 33:22	17:22 18:25 22:22	105:10,15,22,24
<b>contend</b> 120:10	<b>cooperatively</b> 37:25	30:19 31:8,18	106:9,25 107:16
<b>content</b> 11:13	<b>copies</b> 50:5	61:5 87:13 99:17	108:18,21 109:1,4
<b>contentious</b> 41:16	<b>copy</b> 66:6 99:13	122:5	109:7,16,24 110:4
<b>contents</b> 17:15	<b>core</b> 10:16	<b>courses</b> 46:1,4	110:13,17,20
<b>contested</b> 118:1	<b>corp</b> 59:17 116:3 116:10 118:10	<b>court</b> 1:1,13 10:2	111:9,11 114:10
<b>context</b> 48:4 53:15 60:22 118:15 119:9	<b>corporate</b> 67:13	10:6,7 11:11,20	114:18 122:17,21
<b>contingent</b> 16:7 62:23	<b>corporation</b> 27:22	13:16,18 14:13	<b>court's</b> 30:14
<b>continuation</b> 114:22 115:6	<b>correct</b> 49:21 51:13 52:21 53:6	15:20 17:15 18:4	37:19 117:6
<b>continue</b> 3:12,19 4:7 45:6 63:19 79:10 113:10 123:12,19 124:15	54:7 57:9 68:5,6 71:15 78:11,12	19:3,10 20:17	<b>courtroom</b> 20:14
<b>continues</b> 14:16 30:13 40:1 107:20	80:16,19,20,24 81:4,5,9 84:12,22	23:15 24:3,12	31:9 65:11
<b>contract</b> 94:6	85:22	25:5,9,22 26:4,8	<b>courts</b> 47:2
<b>contracts</b> 82:9 93:23 96:11	<b>cost</b> 92:3 101:24 118:14 119:11	30:15 31:13 38:4	<b>cover</b> 93:21
<b>contrary</b> 121:25	<b>costly</b> 29:8,18	38:8 39:7 43:12	<b>coverage</b> 31:17
<b>contribution</b> 12:10 13:1 20:11	34:20 41:6	44:2,20,25 48:11	34:8 53:3
<b>control</b> 23:4 81:7 93:13	<b>costs</b> 23:11 49:2	48:23 49:5,7,11	<b>covered</b> 21:1
<b>controlled</b> 40:24	<b>counsel</b> 19:19	49:14,19,22 50:7	81:16 93:4,12
<b>controls</b> 121:9	25:12,24 27:10,10	50:18 51:4,14,19	114:16 116:25
<b>controversially</b> 21:22	30:8,9 52:14 54:2	51:22 52:1,16,23	121:16 122:10
<b>conversations</b> 14:22	66:9 105:5 118:23	53:4,17,22 54:5	<b>covers</b> 92:25
<b>converting</b> 99:17	<b>counterintuitive</b> 91:14	54:14 55:16,22,24	94:16
	91:14	56:7,18 57:8,10	<b>cracks</b> 24:8
	<b>counties</b> 2:14 39:1	57:15 58:4,20	<b>craig</b> 77:1
	40:5,8	59:13 60:6,19,21	<b>create</b> 16:11
	<b>counting</b> 44:7	60:24 61:9,19	22:16
	<b>countless</b> 40:5	62:7,16,25 65:14	<b>creates</b> 23:17
	<b>country</b> 28:12	65:19,22,25 66:19	<b>creating</b> 118:24
	40:13 126:22	72:5,7 74:13 75:3	<b>credit</b> 16:25
	<b>couple</b> 25:21	75:6,9,11,13,15	<b>creditor</b> 10:22
	39:13 45:16 51:7	80:4 81:12,20	14:9 40:11
	79:22	82:1,25 83:1,4,6	<b>creditor's</b> 16:8
		83:12,15,21 85:10	27:5 31:3 42:5
		86:1,24 87:2,6	43:2,16 47:20
		88:4 89:15,17,22	50:13 56:2 57:4
		91:10,23 94:20,23	<b>creditors</b> 7:2,15
		95:5,21 97:13,21	11:3 14:12 15:25
		98:2,4,9,16,18	16:5,7,17,21 18:2
		99:9,14 100:5,19	25:12,25 26:11
		100:22,25 101:4	27:22 29:13,14,18
		101:11 102:13,17	29:25 31:21 32:14

## [creditors - deferred]

Page 9

33:24 34:6,12,16	<b>cutting</b> 17:24 92:3	<b>dealt</b> 60:7	120:23 121:2,7,11
36:16 37:16 39:17		<b>dearly</b> 21:23	122:1 123:5,6,11
40:2 58:14 60:2	<b>d</b>	<b>debevoise</b> 8:1	123:12,18,19
61:6 62:3,19	<b>d</b> 1:23 10:1 123:1	<b>debt</b> 16:15 61:5	124:5,12,13,21
114:14	124:1 125:1,14	<b>debtor</b> 5:3 16:24	125:5,6
<b>criminal</b> 80:14	<b>d'apice</b> 9:11	24:11 55:9 72:22	<b>december</b> 79:9,10
<b>crisis</b> 10:21 15:6,9	<b>daily</b> 112:22	72:23 73:13 76:15	80:10 106:7
22:19 23:12 26:12	<b>damage</b> 23:11	78:2 103:14 104:2	<b>decide</b> 48:20 90:3
26:15 28:9 29:3	<b>damages</b> 28:19	111:5 115:9	<b>decided</b> 14:1
32:17 35:4 37:20	46:13,14	118:20,23 119:11	32:15
37:23 41:3 45:22	<b>dana</b> 118:10	<b>debtor's</b> 24:18	<b>decision</b> 29:21
45:23 46:4,13	120:12	40:15 44:14 49:24	108:2 109:19,25
47:24 48:5	<b>daniel</b> 7:4	52:7 54:7 55:7	110:2 117:4,7
<b>crisp</b> 74:6 114:4	<b>data</b> 84:4	56:24 58:2 59:9	<b>decisions</b> 35:7
<b>criteria</b> 114:5	<b>date</b> 18:1,3 20:9	93:10 113:2	47:4 84:10 109:18
<b>critical</b> 4:14 14:24	39:13 56:14 59:21	118:15	116:18,18
19:4 22:10,23	60:12 126:19	<b>debtors</b> 1:9 2:3,4	<b>declaration</b> 65:9
59:9,10 64:8	<b>david</b> 9:5	3:5,6,11,12,18,19	65:12,15 66:6,10
101:18 102:9	<b>davis</b> 5:2 10:8	3:22 4:4,5,12 10:9	68:25 69:2,17,20
117:22 124:23	19:13 49:16 55:4	11:21 13:17 16:19	74:18 75:5 96:24
<b>cross</b> 27:20 65:14	61:21 74:22	17:2,24 18:12	115:2
66:1 70:25 74:11	<b>day</b> 2:1 10:10,22	19:1,3,5 22:9	<b>declarations</b>
89:9,14 102:17	10:23 11:9,20	32:20 35:16 37:3	115:24 117:23
<b>crystal</b> 96:15	13:25 14:9 15:23	37:18 38:16 41:10	<b>decommissioning</b>
<b>current</b> 14:4,23	18:11,22 19:11	42:9 43:15 46:10	92:17,23
55:21 64:22,22	20:18 21:13,24	46:25 49:17 50:2	<b>decontamination</b>
80:12,13 86:6	23:15,17,21 39:14	50:23 51:2,10	92:19
87:6 94:18 107:8	49:1,11 62:2 64:1	52:9,10 53:8,14	<b>dedicated</b> 41:2
112:18	72:20 79:13 90:3	55:5 56:5,12 57:1	48:5
<b>currently</b> 13:7	106:6	57:6,13 58:7,10	<b>deemed</b> 13:23
21:19 33:5 68:20	<b>days</b> 11:1 17:25	58:19 59:3,11,16	16:7 51:9
77:23 78:7,14	17:25 18:3 20:25	59:17,21 60:5,12	<b>deeming</b> 3:24
80:16 91:25 92:4	25:21 27:7 32:24	61:22 67:4,14	124:7
92:12 94:14	37:1 42:7,13,15	69:4,11 72:19	<b>deeply</b> 32:2
<b>cursory</b> 15:10	46:8,8 63:4	73:18 74:1,22	<b>defendants</b> 28:17
<b>customary</b> 97:5	<b>dea</b> 92:21	77:9,12 78:7	29:1
<b>customer</b> 4:7 58:2	<b>deadly</b> 49:6	91:25 96:23 97:9	<b>defer</b> 63:10 64:1
58:5,11 124:15	<b>deal</b> 13:7 15:16	103:25 104:8	105:7 111:19
<b>customers</b> 4:6,8	22:25 46:2,3 47:2	110:25 114:12,22	112:3
96:13 99:3 124:14	60:16	114:24 115:1,11	<b>deferrals</b> 63:23
124:17	<b>dealing</b> 30:20	116:15,16,19,21	<b>deferred</b> 63:13,15
<b>cut</b> 45:3	36:11 37:1,23	119:10,13,20	63:20
	46:20 47:16 81:17	120:2,8,9,15,22	
	89:12		

[definitely - duparquet]

Page 10

<b>definitely</b> 48:12	<b>determine</b> 82:10	<b>discontinuing</b> 3:24 124:7	<b>docket</b> 11:7 32:24
<b>definition</b> 66:24	<b>determined</b> 32:15	<b>discuss</b> 30:5	33:3 36:22 39:25
117:19	97:16 99:8 114:5	<b>discussed</b> 13:25	50:1,2 52:9,10
<b>degree</b> 45:22	<b>determining</b> 4:1	14:9 17:22 73:8	55:1,9,10 56:25
<b>delivered</b> 59:20	29:17 33:24 97:16	113:23	57:2 58:6,8 59:11
59:25 60:11,13	124:9	<b>discusses</b> 72:23	59:12 61:24,25
98:10	<b>developed</b> 96:2	<b>discussing</b> 111:24	62:1 65:10 99:11
<b>demanding</b> 10:20	<b>development</b> 93:6	<b>discussion</b> 112:4,9	99:12
88:19	93:8	<b>discussions</b> 24:10	<b>doctor</b> 87:19 99:1
<b>denominator</b>	<b>develops</b> 107:21	35:17 43:16,17	<b>doctors</b> 81:24
29:17 32:13 33:23	<b>deviate</b> 108:14,15	<b>dislocation</b> 47:9	90:10 108:3
<b>department</b> 3:2	<b>devoted</b> 15:18	<b>disputed</b> 45:23	<b>document</b> 15:10
9:9 90:17	<b>dialogue</b> 90:14	<b>disputes</b> 62:17	17:10
<b>depending</b> 13:5	<b>dicta</b> 116:9,9	<b>disruptive</b> 95:15	<b>documents</b> 41:13
94:2 110:3 111:20	<b>different</b> 28:19,19	<b>distinction</b> 81:21	<b>doing</b> 15:22 30:8
<b>deploy</b> 15:8	28:20,23,23 34:6	81:22 82:6 91:13	31:22 33:25 35:7
<b>deposit</b> 57:7	34:6 46:19 83:8	<b>distinguishable</b> 28:10	35:19 44:18 78:1
<b>deposited</b> 57:6,23	86:16 89:16 99:20	<b>distraction</b> 29:8	82:12 87:14 101:4
<b>depositions</b> 20:15	100:1 117:19	<b>distribute</b> 22:14	101:15
<b>describe</b> 11:9 16:1	<b>difficult</b> 30:16	<b>distributed</b> 20:16	<b>doj</b> 28:11
27:25 85:18	32:5 46:5,7 47:6	47:8,17 82:10	<b>dollars</b> 11:25 13:3
<b>described</b> 11:20	50:21 62:11 86:18	<b>distributing</b> 26:15	22:10 23:5,10
69:1 115:23	86:21,22 89:23	<b>distribution</b> 10:18	41:2
<b>description</b> 70:12	113:15 115:11,13	47:8 49:2 88:5,10	<b>doubling</b> 106:16
123:4 124:4 125:4	<b>dignity</b> 112:25	96:10	106:24,25 107:2,4
<b>descriptions</b> 72:2	<b>diligence</b> 15:12	<b>distributions</b> 19:14 20:3,4,10	<b>doubt</b> 14:23 36:23
<b>deserve</b> 15:15	21:1 41:9 42:3,9	21:4,6,7 24:10	<b>draft</b> 17:16 33:1
<b>design</b> 119:21	46:24 47:15 63:7	<b>distributor</b> 28:25	<b>drafts</b> 17:6
<b>designed</b> 14:3,21	111:8 118:19,24	<b>distributors</b> 67:8	<b>drain</b> 1:23
18:5 37:21,22	<b>dip</b> 61:5	<b>district</b> 1:2 57:20	<b>draw</b> 38:15 105:8
96:5 119:13,14	<b>direct</b> 46:22	<b>diversification</b> 95:23,25 96:6	<b>draws</b> 90:12
<b>despite</b> 16:6 17:25	<b>directly</b> 19:17	<b>diversion</b> 81:7	<b>drive</b> 113:19,19
<b>destroy</b> 23:9	30:4 45:1 77:3,7	87:23 93:13	<b>drug</b> 84:5,14,23
<b>destroyed</b> 12:2	114:4	<b>diversions</b> 87:24	84:24 85:6 90:8,8
<b>destruction</b> 23:19	<b>director</b> 93:5	<b>division</b> 42:24	90:8 107:19,19,22
<b>detail</b> 11:18 21:1	96:22	<b>dizengoff</b> 25:10	<b>drugs</b> 22:17
64:7 69:2 81:25	<b>directors</b> 14:7	25:11 48:23	101:19
<b>detailed</b> 20:21	34:2	<b>dizingoff</b> 7:19	<b>due</b> 30:18 46:24
117:23	<b>disclosed</b> 107:11		47:15 51:10 52:4
<b>details</b> 77:16	<b>disclosure</b> 30:20		56:14 64:11 111:8
91:21	111:8		118:19,23
<b>determination</b>			<b>duparquet</b> 106:13
36:7			116:5

## [duplicative - essence]

Page 11

<b>duplicative</b>	<b>effective</b>	13:9 43:8	67:3 68:16,19	<b>entail</b>	72:3
100:13	53:3	69:11 78:8 79:6	<b>enter</b>	78:3	
<b>duties</b>	<b>effectively</b>	80:12,13 85:18	<b>entered</b>	39:16	
16:5,18,20	100:7	86:6 92:9 93:1,12	50:1,5 52:9 55:1,8		
19:4 29:24 32:7	<b>efficiency</b>	93:17 94:16,18,25	56:25 58:6 59:11		
<b>duty</b>	<b>efficient</b>	95:11 96:4,5,8,16	<b>entering</b>	41:7	
22:13 29:10	<b>effort</b>	96:17,20 97:1,7	<b>entire</b>	80:17 81:13	
29:11	39:21	99:23 101:16	112:8		
<b>dynamics</b>	<b>efforts</b>	103:15 105:6	<b>entirely</b>	51:24	
16:11	31:11 62:10	107:25 113:17	87:14		
<b>e</b>	118:19	114:25 116:25	<b>entirety</b>	11:20	
<b>e</b> 1:22,22 5:1,1	<b>eight</b>	117:8,12 118:21	<b>entities</b>	14:6 22:17	
10:1,1 54:23	<b>eisler</b>	119:22 122:1	29:22 34:13 38:25		
57:24 65:24 123:1	<b>either</b>	125:9	46:12 67:6 88:17		
124:1 125:1,14,16	11:22 67:15	<b>employer</b>	101:17		
125:16 126:1	87:4 88:6 94:1	<b>employment</b>	108:13		
<b>earlier</b>	<b>elapse</b>	74:18 93:23 94:6	116:7 117:21		
34:5 35:15	42:14	115:25	121:5		
36:4 37:3,5 39:23	<b>electrical</b>	<b>enacted</b>	<b>entity</b>		
77:22 81:14 99:18	116:6	116:20	14:3 15:8		
121:7 122:1	<b>elements</b>	<b>encourage</b>	18:18		
<b>early</b>	11:19	45:4			
38:1 63:4,4	14:20 40:22	<b>encouraging</b>	<b>entry</b>		
110:23	<b>eleven</b>	85:21	2:3 3:5,11		
<b>earned</b>	8:8	<b>ended</b>	3:18,22 4:4,12		
94:7	<b>eli</b>	10:23	51:3,12 52:3		
115:25	5:9 61:16,21	<b>ends</b>	56:19 58:12,19		
<b>earning</b>	<b>elicited</b>	17:10 45:9	60:5 122:3 123:5		
118:16	106:2	<b>enforcement</b>	123:11,18 124:5		
<b>east</b>	<b>eligible</b>	8:15			
6:11	66:12,13	<b>engage</b>	124:12,21 125:5		
<b>easy</b>	67:3 84:11 96:8	35:10			
47:1	96:16,20	<b>engaged</b>	<b>epic</b>		
<b>ecf</b>	<b>else's</b>	66:14	26:12		
2:10,12,15,18	89:3 108:10	86:7,20 96:18			
2:21,24 3:3,9,16	<b>email</b>	121:17			
3:20 4:2,10,15	122:12	<b>enhances</b>	<b>epidemic</b>		
123:9,16,20	<b>emergency</b>	36:17	41:4		
124:10,19,25	35:10	<b>enjoining</b>	<b>equally</b>		
125:12	37:20	30:14	15:14		
<b>eck</b>	<b>emergent</b>	<b>enjoy</b>	47:16		
8:20 111:1,2	14:6	31:16			
111:10	<b>emotions</b>	<b>enormous</b>	<b>equipment</b>		
<b>eckstein</b>	19:1	48:16	92:14		
5:17 39:4	<b>employed</b>	<b>enshrined</b>	<b>equitably</b>		
39:8,9 46:6	73:13	15:19	36:17		
<b>economically</b>	73:15 77:9,12,14	<b>ensure</b>	<b>erased</b>		
101:25 102:8	77:23 94:20,21	18:5 84:3	110:22		
<b>ecro</b>	<b>employee</b>	88:2 89:23 98:25			
1:25	2:5,6	99:4 101:17,24			
<b>edan</b>	61:24 93:3,4 94:5	108:9			
7:22	97:14,22 98:19	<b>ensuring</b>	<b>erred</b>		
<b>editorial</b>	114:11,16,21	32:15	19:11		
21:24	117:20,22 121:22	87:22,24 96:9			
<b>educated</b>	125:6,7	102:6			
90:23,24	<b>employees</b>	<b>essence</b>			
112:2	2:7 3:3	52:19,20			
<b>education</b>	64:7,8,16,22,22				
112:9	64:24 65:1 66:13				

[essential - feel]

Page 12

<b>essential</b> 11:19 116:9	<b>examined</b> 21:12 89:9	<b>expense</b> 59:22 62:21	92:18 93:11 94:22 95:17 114:23
<b>essentially</b> 99:24 110:22	<b>examiner</b> 36:12	<b>expenses</b> 63:18 99:23 115:21	<b>fact</b> 13:23 15:4 16:6 18:1 19:20
<b>esserman</b> 9:11,12	<b>examining</b> 74:12	<b>expert</b> 87:9 88:8	20:25 21:1 23:13
<b>established</b> 120:15	<b>example</b> 12:18 70:21 82:8 91:1	<b>experts</b> 68:15 85:1	33:11 35:20 39:23 43:7,23 48:3
<b>establishing</b> 3:25 124:9	<b>examples</b> 28:2 76:7	<b>explain</b> 28:1 81:24,24	51:20 54:17 58:22 61:12 73:22,23,24
<b>estate</b> 12:6,12,13 12:19,21,22 13:4 13:10 15:14 18:5 22:23 23:6 36:6 36:10,13 62:16	<b>exceed</b> 93:3 97:4	<b>exposure</b> 46:2	76:5 107:10
<b>estate's</b> 12:17	<b>exceedingly</b> 11:24	<b>express</b> 34:7 99:22	117:12 119:18,19 119:20 121:24
<b>estates</b> 15:1 16:19 22:12 23:2 40:15 86:23 97:9	<b>exception</b> 19:16 71:9 114:20,25	<b>expressed</b> 14:19 34:9	<b>facts</b> 19:6 24:19 25:3,3 44:6
<b>estimated</b> 46:14	<b>excluded</b> 113:25	<b>expressly</b> 15:7 20:19 42:11	109:17 112:6 118:6,7
<b>estimates</b> 46:14	<b>exclusively</b> 12:1 14:8,11 15:18 16:16,20	<b>extend</b> 53:1 54:9	<b>fail</b> 121:4
<b>et</b> 1:7 10:3 39:1 60:13 88:19	<b>exclusivity</b> 36:11	<b>extended</b> 54:10	<b>fair</b> 38:23 48:20
<b>evaluated</b> 99:7	<b>excruciating</b> 107:22	<b>extension</b> 52:20 53:4,16	74:14 85:18 102:12 118:17
<b>evaluating</b> 118:12	<b>excuse</b> 25:20	<b>extensively</b> 17:23	<b>fairly</b> 36:17
<b>eve</b> 115:16	66:16 74:5 99:12	<b>extent</b> 45:24 57:22 67:14 88:12	<b>fall</b> 24:8 64:11
<b>event</b> 117:21	<b>executive</b> 32:21	<b>extra</b> 50:5 112:8	<b>false</b> 22:21
<b>everybody</b> 36:5 63:9 93:22 102:4	40:7 63:17	<b>extraordinarily</b> 63:5	<b>family</b> 5:21 12:7 32:23 40:25 41:1 46:12
<b>everybody's</b> 64:21	<b>executives</b> 114:2	<b>extreme</b> 17:6	<b>far</b> 46:14 47:5 59:4 88:5 107:21 115:6
<b>everyone's</b> 86:18	<b>exercise</b> 29:11 32:7 44:20 121:23	<b>extremely</b> 39:21 60:23 86:22 92:22 109:2 113:15	<b>fault</b> 119:3
<b>evidence</b> 24:19 65:13 110:14 116:14,24 121:21	<b>exhibit</b> 15:18 69:20	<b>f</b>	<b>favor</b> 12:12 108:10
<b>exact</b> 17:16 69:13 70:24 71:20 78:23 84:7	<b>exist</b> 122:5	<b>f</b> 1:22 83:5 126:1	<b>favorable</b> 102:8
<b>exactly</b> 48:25 74:23 88:21,23,24	<b>existence</b> 36:25 100:20	<b>f.2d</b> 116:6	<b>fda</b> 14:16 92:21
<b>examination</b> 66:1 80:6 83:24 85:13	<b>existing</b> 53:5 54:11	<b>f.3d</b> 116:3	<b>feather</b> 117:3,3
<b>examine</b> 65:15 102:17	<b>exit</b> 12:4	<b>face</b> 19:8 101:13 121:5	<b>feathering</b> 116:21
	<b>expand</b> 72:12	<b>faced</b> 32:5	<b>federal</b> 14:18 18:13 19:4 22:12
	<b>expect</b> 30:18 33:21 37:25 42:8 94:15	<b>facilitate</b> 30:18	<b>fee</b> 101:25
	<b>expectations</b> 97:4	<b>facilitated</b> 35:17	<b>feel</b> 30:12 32:2 100:21 107:1 112:4
	<b>expected</b> 89:9 109:21	<b>facilities</b> 84:4	
	<b>expeditiously</b> 42:16	<b>facility</b> 79:3,9,20 79:21,25 84:20 92:1,4,10,15,15	

<b>feelings</b> 32:6	123:6,11,18 124:6	<b>focusing</b> 45:17	84:15,16,17 90:5
<b>fees</b> 3:7 13:18	124:12,21	48:13 69:8 71:2	101:18,19,22,23
23:10 49:1 123:7	<b>finally</b> 20:13	<b>follow</b> 80:8	103:18
<b>feet</b> 62:11	31:23 36:19	106:22	<b>formulations</b> 93:9
<b>feld</b> 7:14 25:11	<b>finance</b> 76:7 84:8	<b>following</b> 27:15	<b>forth</b> 15:7 17:6
<b>felt</b> 31:7	<b>financial</b> 2:9 3:2,7	33:7 51:7 62:20	21:4 115:10
<b>fiduciaries</b> 34:15	3:15 4:9,14 8:15	79:13	<b>fortiori</b> 13:21
36:1,7,10,14	10:21 11:24 20:19	<b>follows</b> 19:22	<b>forum</b> 44:22
<b>fiduciary</b> 16:5,18	20:22 22:11 24:24	21:25	<b>forward</b> 35:9
29:10,11,11,24	25:1 27:11 41:10	<b>foolish</b> 101:4	42:16 45:25 49:24
32:7	65:10 101:16	<b>foot</b> 113:14	65:8 95:23 114:12
<b>field</b> 88:8 96:4	123:8,15 124:17	<b>footnote</b> 69:16	<b>found</b> 60:11
<b>fifty</b> 97:13	124:23 125:10	70:2,5,9,11,14	<b>foundation</b> 42:25
<b>fight</b> 14:1 34:20	<b>find</b> 49:5	71:4,25 72:18	<b>four</b> 10:19 19:9
<b>fighting</b> 34:4	<b>fine</b> 22:1 57:23,24	73:6 74:17 75:19	20:13 26:20 45:1
<b>figure</b> 35:2 38:17	61:1 83:21 89:11	76:11 105:17	69:1 83:22
84:1	<b>finishes</b> 22:22	115:1	<b>fourth</b> 26:22
<b>figuring</b> 34:18	<b>fire</b> 55:11	<b>force</b> 72:13	36:19
<b>file</b> 37:7 65:10	<b>firm</b> 28:5	<b>foregoing</b> 126:4	<b>fox</b> 54:1
<b>filed</b> 11:7 21:25	<b>first</b> 10:10 11:9,20	<b>forensic</b> 27:11	<b>frame</b> 77:14
27:2,13 32:24	13:25 14:9 18:11	<b>forensics</b> 21:14	<b>framework</b> 11:8
36:21 38:12,13	19:11 20:18 21:13	24:24 25:2	11:19 32:25 33:5
39:25 42:14 50:2	23:17 25:25 27:3	<b>foresee</b> 25:19,20	34:17 36:9 39:18
52:9 55:9 57:1	27:24 28:1 30:3	<b>forever</b> 48:3	42:24
58:7 59:12 62:1	30:11 32:12,15	<b>forgetting</b> 70:2	<b>frankel</b> 5:12
72:19 74:10,11	33:2,9 39:14	<b>forgive</b> 38:21	<b>frankly</b> 27:7 33:6
110:18 111:3	40:22 48:10,22	<b>form</b> 11:13 34:22	41:19 45:5 87:25
<b>filings</b> 22:9 86:13	49:1,12,23 51:15	50:2,12,15 52:9	111:12 113:24
115:17 119:3	62:2,20 64:1,5	52:13 55:9,25	<b>fraudulent</b> 18:14
<b>final</b> 3:5,11,18,22	66:9,23 72:19	57:1 58:7,13	23:7
4:4,12 30:1 41:18	73:8 112:13	59:12 60:1 62:1	<b>frederick</b> 73:3
50:2,4,11,12,15	114:22 119:8	84:9 91:16 97:12	75:22 76:12 77:18
50:24 51:1,3,5,12	<b>fit</b> 31:19	99:11	78:2
52:10,13,22 54:17	<b>five</b> 40:3 69:3,6	<b>formal</b> 11:10	<b>frictional</b> 49:2
55:12,18,18 56:1	93:24,25	54:18 58:11 59:2	<b>front</b> 19:7 26:1
56:3,6,11,21 57:1	<b>flat</b> 19:16 119:17	61:14	50:14
57:14 58:7,13,16	<b>floor</b> 8:17	<b>formation</b> 6:3	<b>fronting</b> 53:7,13
58:19,22 59:8,12	<b>flows</b> 19:20 20:2,2	<b>formed</b> 11:15	<b>fruit</b> 10:25
59:18 60:1,5	<b>focal</b> 45:21	15:23	<b>frustrate</b> 18:10
61:11 62:1,25	<b>focus</b> 46:25 47:15	<b>forms</b> 50:11 56:16	<b>fulfill</b> 113:8
63:20 64:24 99:11	47:15 71:25 117:6	<b>formularies</b> 89:12	<b>full</b> 20:8 25:7
99:17 100:17	<b>focused</b> 37:10	<b>formulary</b> 82:23	53:13 57:7 96:19
114:11,19 117:10	88:19	83:2,3,6 84:3,11	

<b>function</b> 46:24 102:3 110:8	<b>given</b> 20:21 25:25 32:17 34:15 39:12	<b>governing</b> 18:2 91:4	<b>groups</b> 62:9 88:6 89:25 120:10
<b>functions</b> 72:3 117:22	46:19 48:21 56:18 60:22 75:1 100:5 113:10 120:8	<b>government</b> 14:18 21:19 103:2	<b>growth</b> 95:24
<b>fund</b> 35:10 37:20	<b>gives</b> 103:3 112:25	<b>governmental</b> 3:7 18:1 29:22 38:13 39:17 40:2 88:17 91:14 123:7	<b>guarantee</b> 27:22 53:13
<b>funds</b> 26:15 48:5 48:15	<b>giving</b> 44:18 84:8 102:15 112:8	<b>governments</b> 20:22	<b>guaranteed</b> 12:9 20:11
<b>further</b> 85:9,13 114:8	<b>go</b> 15:6 23:12 24:16 26:8 35:9 36:8 48:17 64:7 65:2 75:15 91:6 95:23 97:19 114:12	<b>governor</b> 47:22	<b>guess</b> 52:16 90:23 98:4 100:22 106:15
<b>future</b> 3:25 34:21 35:2 41:5 47:16 97:8 124:8	<b>goal</b> 14:10 15:6 62:14	<b>grade</b> 94:3	<b>guide</b> 45:12
<b>g</b>	<b>goals</b> 11:23 14:24 36:3 97:23 98:1	<b>grand</b> 20:9	<b>guilty</b> 73:3,21 74:4,19 75:22
<b>g</b> 10:1 123:3 124:3 125:3	<b>godfrey</b> 6:9	<b>grander</b> 35:12	76:13 77:17,24,25
<b>gain</b> 43:5	<b>goes</b> 35:1 63:24 84:2 85:6	<b>grandparent</b> 27:17	78:2,3 80:11
<b>gallagher</b> 4:25 126:3,15	<b>going</b> 14:8 16:16 22:15 25:4 26:22 29:6 30:13 33:14 35:6,14,22 36:2 36:24 39:11 42:4 42:6,8 45:8,14 48:18 49:24 64:18 66:5 68:24 74:23 78:5 79:8 89:18 92:15 98:14 99:24	<b>grant</b> 52:2 54:15 56:21 57:17 58:21 61:10 122:7	<b>gump</b> 7:14 25:11 25:24
<b>gap</b> 109:4	100:18 104:11	<b>granted</b> 56:6 57:14 59:22	<b>h</b>
<b>garfinkle</b> 9:8	106:6,17 113:20 122:19	<b>granting</b> 56:11	<b>h</b> 5:17
<b>gate</b> 11:16	<b>good</b> 10:2,4 12:1 14:12 17:19 25:10 25:23 39:8 45:10 49:8,22 51:15 61:20 66:3 111:1	<b>grapple</b> 47:2	<b>hac</b> 54:2,19,20
<b>gather</b> 54:9 97:14	<b>goods</b> 59:19,24	<b>gravamen</b> 14:14	<b>half</b> 20:11 36:1,1 38:21,22 40:13
<b>general</b> 6:2 11:8 21:25 26:12 29:14 46:3 47:22 53:2 66:23 70:12 115:20	<b>gotten</b> 12:22 34:8 54:20	<b>gravitating</b> 88:23	<b>hampton</b> 27:16
<b>generally</b> 46:3,13 68:10 105:16 117:4 118:22 121:14		<b>great</b> 13:13,14 16:23 25:3 90:8 99:15	<b>hand</b> 15:6 42:15 50:8 65:20
<b>generate</b> 95:24		<b>greater</b> 35:12 46:14,16 69:6	<b>handled</b> 86:8 88:2
<b>generated</b> 79:25		<b>greatest</b> 43:24	<b>handling</b> 87:22,23
<b>generic</b> 79:22,23		<b>grips</b> 47:6	<b>hands</b> 14:12
<b>gerard</b> 5:25		<b>gross</b> 79:24	<b>happen</b> 37:9 63:16
<b>getting</b> 24:7 33:24 67:24 82:13 84:11 100:14 101:13		<b>ground</b> 96:7	<b>happened</b> 32:3
<b>give</b> 13:2 17:15 25:19 34:23 45:16 48:23 62:25 64:17 76:7 87:9 99:25		<b>grounds</b> 119:6	<b>happening</b> 25:20
		<b>group</b> 2:20 7:8 11:2 13:19 20:12 32:20 39:16 41:23 44:5,7 59:1 76:24 76:25 82:17 85:1	<b>happens</b> 36:15
		<b>goods</b> 59:19,24	<b>happy</b> 10:24 100:15
		<b>gotten</b> 12:22 34:8 54:20	<b>harassed</b> 30:13
			<b>hard</b> 17:3 41:17 50:17 62:3,14 85:15 86:22 91:12 98:4 113:16 120:7
			<b>harm</b> 95:15
			<b>harmful</b> 120:22

## [harmonized - illustrative]

Page 15

<b>harmonized</b> 46:4	<b>highlight</b> 119:19	57:3,9,11 58:1,2	34:11 37:6 38:6,9
<b>harrisburg</b> 8:18	<b>highlights</b> 119:19	58:18 59:7,8,17	39:12,20 40:24
<b>hauer</b> 7:14 25:11	<b>highly</b> 17:12	60:4,18 61:5,15	45:15 50:17 60:20
<b>head</b> 70:22 77:6	76:19 86:25 95:13	61:20 62:2 63:3	60:22 61:4 88:11
80:1 86:5 93:6			89:16,21 90:2
94:25			101:1,12 102:14
<b>health</b> 26:17	9:2 11:2 13:19	75:8,12,17 79:16	103:10 104:11,23
27:20 28:4,8	15:12 17:21 20:12	80:2,5 83:18 85:9	108:24 109:2,6,8
32:14,16 34:25	24:15 25:6 32:20	85:11 86:3 87:25	<b>huebner's</b> 24:1,13
35:11 36:18 41:3	39:9 40:5,6 42:4	88:7,11 90:3	24:17
48:5	43:11,20 44:5,7	91:11,20 93:16	<b>human</b> 46:22
<b>hear</b> 25:17 67:22	50:13,19 52:12	95:3,19 97:10,12	68:14
<b>heard</b> 27:3,24	56:2 57:4 58:10	99:10 100:2,12,21	<b>hundred</b> 21:14
34:11 41:8 96:14	58:15 59:15 60:3	101:1,15 102:15	46:15 104:2
103:6,10 113:13	62:4,19 111:5	104:11,25 106:1	<b>hundreds</b> 14:17
<b>hearing</b> 2:1,1,3,12	114:14	107:6 108:20,23	23:10
2:14,17,20,23 3:1	<b>hocs</b> 34:1	108:24 109:11	<b>hurley</b> 7:21 25:17
3:5,11,18,22 4:4	<b>holding</b> 20:5	110:2,16 111:1	<b>hypothetical</b>
4:12 10:11 11:9	<b>holds</b> 40:13 93:5	112:7 113:7,8,24	94:19
17:8,10 18:11	<b>hon</b> 1:23	114:8 122:15,22	<b>i</b>
21:13 23:17 24:7	<b>honor</b> 2:9 3:8,14	123:8,14,15	
24:25 26:23 37:7	3:15 4:5,9,14 10:4	124:13,18,24	
39:14 44:22 45:5	10:7,10 14:14,22	125:11	
45:9 52:3 54:16	15:14,20 16:22	<b>honored</b> 32:8	
56:16,20 57:18	18:21 19:9 20:13	<b>hope</b> 33:9,21	
58:23 61:12 62:2	21:17 23:20,23	34:17,22 37:6,9	
63:3,11 64:1 89:1	24:4,5,17,19,21	38:20 43:18 47:14	
111:25	24:23 25:10,23	47:25 49:5 62:13	
<b>heavily</b> 19:11	26:1,9,20,25	109:16 110:4	
92:22	30:24 31:23 32:11	<b>hopeful</b> 17:7	
<b>held</b> 63:11	36:19 38:3 39:8	42:23	
<b>help</b> 22:1,18	39:15 40:11,16,21	<b>hopefully</b> 15:24	
23:12 45:12 60:20	41:8,19,21 42:1	17:10,19 23:2	
62:4	42:23 43:12,13	89:11 102:14	
<b>helpful</b> 24:22	44:1,3,11,24 48:8	<b>hospital</b> 27:21	
45:12 66:8 74:8	48:10,23 49:8,10	<b>hospitals</b> 26:16	
88:12 102:14	49:15,16,18,21,23	28:4 40:9	
<b>helpfully</b> 16:4	50:3,6,9,10,16	<b>hour</b> 44:16	
<b>helping</b> 109:25	51:2,13,24 52:5,6	<b>hours</b> 33:3 50:21	
<b>helter</b> 23:9	52:15,21 53:6,20	<b>hudson</b> 5:22	
<b>high</b> 32:9	53:21,24 54:6	<b>huebner</b> 5:7 10:4	
<b>higher</b> 96:21	55:3,6,11,14,17	10:7,8 23:24 24:9	
	56:3,15,22,23	24:22 27:24 32:19	

## [imagine - institutions]

Page 16

<b>imagine</b> 30:10 77:13 94:25	119:8,16 120:16 120:20	<b>incur</b> 94:15 <b>independent</b> 118:23 <b>incentives</b> 97:7 121:9	59:4 65:7 73:2 79:4 85:4 110:6
<b>immediate</b> 18:20	<b>incentivize</b> 12:16 117:21 119:15 120:21	<b>indicated</b> 40:24 70:4 71:5 105:5 106:5 109:14	<b>informational</b> 72:19 73:19 <b>informed</b> 39:15 109:17
<b>immediately</b> 106:22	<b>incentivized</b> 89:25 92:11 102:3 118:21	<b>indiscernible</b> 14:4 33:4 39:5 40:12 44:8,12,22 67:21	<b>inherent</b> 14:19 <b>initial</b> 18:18,20 41:20 69:20 112:23
<b>impact</b> 23:18 46:22 84:16 101:16	<b>incipient</b> 16:11	67:24 83:20 102:23	<b>initiative</b> 92:3 <b>initiatives</b> 64:3
<b>implication</b> 51:23	<b>include</b> 28:3 37:7 38:23 68:2,3	<b>individual</b> 23:8 30:9 46:20 47:24 48:4 67:11 77:21 77:23 97:25 98:1 101:20	<b>injunction</b> 17:25 18:7 26:23 34:19 36:21 37:8 44:15
<b>implicit</b> 116:22 121:14	69:15 76:16 81:2 81:7 90:10 93:13 98:19 112:3,21 122:4	<b>individual's</b> 97:23	<b>injunctive</b> 88:14 <b>injury</b> 26:16 27:16 28:4,6
<b>importance</b> 26:18 41:23	<b>included</b> 44:8 70:5 71:4 77:16 81:20 84:14 100:17 109:13	<b>individuals</b> 28:7 31:24,25 47:19,20 67:18 68:18 115:5 119:15 120:5,9 121:4	<b>innovation</b> 112:24 <b>inquiries</b> 90:18 <b>insider</b> 64:6,15 76:24,25 93:1,7 94:5,10 96:22
<b>important</b> 10:25 11:12 15:14 25:14 30:15,21 33:24 35:12 40:22 42:17 43:2,22 44:19 86:4 88:1 90:16 91:13 92:13,23 95:9 98:12 102:2 102:3 107:11,17 111:22,25 112:23 112:24 113:14 117:1 119:16,16	111:7	<b>indulge</b> 55:15 <b>industry</b> 68:8 87:2 90:12 97:6 118:19,22	97:1 113:25 114:6 115:9,13 116:16 116:24
<b>importantly</b> 37:17 53:8 96:14 112:14 116:17	<b>including</b> 11:4,15 14:25 17:22 18:18 24:10 30:4 37:2	<b>ineligible</b> 13:24 16:7	<b>insiders</b> 69:19 74:25 75:20 92:10 93:17 106:3,10,14
<b>impose</b> 88:14 91:2	37:12 40:3,9 43:19 46:11,24	<b>inevitable</b> 35:5	109:13 110:10
<b>impression</b> 108:8 109:18	62:21 88:17 92:13 92:21 93:8 110:21 114:23 118:20	<b>inference</b> 38:15	113:22 115:2
<b>improper</b> 17:14 107:24 121:17 122:2	120:1	<b>infinite</b> 49:3	116:12 118:2,3 119:18 121:24
<b>improperly</b> 108:7	<b>incoming</b> 90:18	<b>influence</b> 31:13 76:22 84:5,10 108:3 109:25 110:2 116:18	<b>insistence</b> 54:13
<b>inaccurate</b> 39:3	<b>incorrect</b> 103:13	<b>influencing</b> 82:3,5	<b>instance</b> 91:13 119:25
<b>inappropriate</b> 18:6	<b>increase</b> 29:16 55:19,20 103:16	<b>informal</b> 52:11 54:18 55:12 58:9 58:11 59:14,16	<b>instances</b> 28:16 28:19 76:21
<b>incented</b> 108:5,6 108:7	<b>increased</b> 28:8	61:13	<b>institutions</b> 2:9 3:8,15 4:9,14
<b>incentive</b> 63:12 103:16 115:4 117:25 118:5,24	<b>increasing</b> 85:21	<b>information</b> 41:12 42:18 43:5,22	123:8,15 124:18 124:24 125:11
	<b>incremental</b> 13:3 13:11		

<b>insurance</b> 3:13 8:7 26:17 27:20 28:5,8 33:21 52:7 52:8,12,14,25,25 55:11 83:11 101:20,21 123:13	<b>intermediate</b> 18:19 <b>international</b> 116:6 <b>interrupt</b> 26:4 106:9 <b>interrupting</b> 24:6 <b>introduce</b> 25:15 <b>invaded</b> 48:6 <b>invalidate</b> 117:15 <b>inventory</b> 82:12 <b>invested</b> 39:21 <b>investigate</b> 33:18 37:11 47:3 <b>investigating</b> 118:20 <b>investigation</b> 47:4 <b>investment</b> 27:12 <b>invited</b> 17:9 <b>invoke</b> 19:1 <b>involved</b> 39:22 41:22 42:22 74:3 74:18 75:20 76:12 81:17 88:18 101:23 118:8	<b>issued</b> 54:8 <b>issues</b> 29:2,2,6 35:6 44:19 45:7 45:18 48:16,21 49:6 74:7 88:18 101:24 105:6 <b>item</b> 49:13 52:6 55:6 56:23 58:3 61:17,23,23,25 82:5 <b>items</b> 26:21 37:5 49:12 122:10	<b>journals</b> 80:23 <b>judge</b> 1:24 73:10 74:5 116:8 118:10 <b>judgment</b> 18:9 106:3 118:12 121:23 <b>judgments</b> 18:10 <b>jumped</b> 62:10 <b>june</b> 80:10 <b>justice</b> 9:10 <b>justification</b> 120:16 <b>justifications</b> 118:9 <b>justified</b> 118:6 <b>justin</b> 7:5
		<b>j</b>	
		<b>j</b> 5:9 65:24 <b>james</b> 5:10 <b>jamie</b> 4:24 126:3 126:15 <b>january</b> 19:21 <b>jeffrey</b> 9:8 <b>jeffries</b> 27:12 <b>jennifer</b> 9:9 <b>jeopardize</b> 95:16 <b>jim</b> 74:21 <b>job</b> 25:15 31:1 43:2 72:2 77:15 78:1,1 79:2,10 89:12 98:24,25 99:4 106:8,17,19 108:9 113:11 <b>jobs</b> 75:20 76:1 79:5,6,7 98:15 113:19 <b>joinder</b> 2:14,17 2:20,23 110:19 <b>joinders</b> 110:18 111:3 <b>joined</b> 110:22 <b>joint</b> 115:10 <b>jointly</b> 37:19 <b>jon</b> 65:9,21 125:18 <b>journal</b> 82:4	<b>k</b>
			<b>k</b> 6:23 8:4 9:8 <b>kahn</b> 6:9 <b>keenly</b> 18:12 <b>keep</b> 44:3 103:18 106:21 <b>keeps</b> 102:23 <b>kenneth</b> 5:17 39:8 <b>kesselman</b> 77:1 <b>key</b> 35:7 40:21 50:14 95:22,25 118:21 <b>kicked</b> 44:9 <b>kind</b> 86:14 91:14 113:11 <b>kindly</b> 30:7 <b>know</b> 19:10 24:14 32:19 34:13 35:24 37:9 44:17 49:3 50:18,20 53:15 55:2 61:8 65:1 66:18 68:7,18,23 69:13,25 70:8 71:3,5,20 73:22 73:23,23,24 74:3 74:17 75:19 76:5 77:10,15 78:13,21

[know - mail]

Page 18

78:22 79:24 85:16 88:25 89:10,12,22 89:25 91:16 94:24 98:24 106:6,15 107:8,21 108:9 112:15 121:20 <b>knowing</b> 38:14 45:14 <b>knowledge</b> 76:14 77:21 78:4 80:13 <b>known</b> 12:8 54:12 94:14 <b>knows</b> 16:22 35:21 63:3 106:17 <b>kramer</b> 5:12 39:9	<b>lawsuits</b> 14:15 <b>lawyer</b> 24:12 <b>lawyers</b> 17:9 30:4 <b>layer</b> 53:2 <b>lead</b> 13:6 38:24 43:23 <b>leading</b> 42:8 <b>learning</b> 43:22 <b>leased</b> 92:16 <b>leasing</b> 92:4 <b>leave</b> 17:17 47:13 51:16 62:22 65:5 92:19 107:2,12 <b>leaving</b> 63:21 <b>lee</b> 27:19 <b>left</b> 64:18 109:10 <b>legal</b> 23:10 27:9 27:10 87:12 107:18 121:8 126:21 <b>legitimate</b> 120:18 121:1 <b>length</b> 17:24 49:1 <b>lengthy</b> 41:16 <b>letter</b> 3:1 <b>level</b> 70:5 71:4 94:3 101:24 109:20 113:14 <b>levels</b> 13:11 69:23 70:12,13 82:12 <b>levin</b> 5:12 39:9 54:1 <b>lexington</b> 5:4 <b>liabilities</b> 118:16 119:10 <b>liability</b> 3:13 11:22 18:17 53:1 53:3 54:10,10 123:13 <b>lifland</b> 118:10 <b>light</b> 48:14 63:6 111:4	<b>lightly</b> 16:9 <b>limit</b> 44:21 <b>limitations</b> 90:25 <b>limited</b> 64:6 75:1 76:25 88:23 92:5 <b>linda</b> 3:1 <b>line</b> 85:16,18 97:25 111:6 120:2 <b>lines</b> 30:17 52:18 69:1 121:21 <b>lion</b> 34:10 <b>lisovicz</b> 7:22 <b>list</b> 73:16 <b>listed</b> 27:14 70:14 71:10 76:11 <b>listen</b> 76:21 <b>litigants</b> 23:8,14 28:3,3,10,11,14 28:16,18 29:13,14 34:7,8,10 38:14 40:9 <b>litigate</b> 44:21 <b>litigation</b> 11:22 12:2 13:22 29:19 41:6 45:6 46:25 47:5,7 88:13 <b>litigations</b> 38:12 <b>little</b> 28:1 30:12 34:23 101:8 106:20 <b>live</b> 60:15 <b>lively</b> 13:12 <b>llp</b> 5:2,12,20 6:1 7:7,14 8:1,6 10:8 <b>loaded</b> 111:25 <b>loan</b> 27:22 59:17 <b>loans</b> 19:24 61:5 <b>local</b> 116:5 <b>logic</b> 106:22 <b>logically</b> 117:15 <b>lohmann</b> 59:19 60:7	<b>long</b> 14:15 36:16 38:14 50:20 63:13 112:22 113:11 115:19 <b>longer</b> 41:1 80:21 90:18 <b>look</b> 57:22 68:15 69:17 70:20 75:24 111:17 <b>looking</b> 33:6 34:16 35:23 75:3 90:23 <b>looks</b> 20:8 <b>lot</b> 24:9 29:20 33:17 37:1 42:18 54:20 60:10 63:5 72:21 91:9 <b>lots</b> 87:12 <b>lower</b> 109:20 <b>lowne</b> 65:9,11,15 65:18,21 66:3 80:8,16 81:10,12 85:15 89:8 90:15 96:14,23 101:2,6 102:4,10,12,17 103:9,12,16,21,24 104:3,7,18 113:13 119:25 125:18 <b>lowne's</b> 86:10 101:12 115:2,23 117:23 119:12 121:19 <b>lts</b> 27:22 59:16,19 59:24 60:7 <b>lump</b> 116:1 <b>luskin</b> 8:6,11 53:24,24,24 54:6
<b>l</b> <b>1</b> 7:23 8:20 9:9,11 65:24 83:5 123:3 124:3 125:3 <b>l.p.</b> 1:7 10:3 <b>laboratory</b> 92:16 <b>lacewell</b> 3:1 <b>lack</b> 37:22 52:3 69:18 78:13 <b>laid</b> 19:11 78:10 118:10 <b>landau</b> 77:1 <b>language</b> 53:11 60:16 91:13 99:18 99:21 100:8 <b>large</b> 25:1 41:19 59:1 101:21 <b>largely</b> 23:21 50:21 <b>larger</b> 45:21 <b>laughter</b> 83:23 95:4 102:25 103:5 <b>launch</b> 96:2 <b>law</b> 7:1 18:13 19:4 22:13 57:19 108:24 109:5 114:7 115:15 116:2,16 121:2,25	<b>lexington</b> 5:4 <b>liabilities</b> 118:16 119:10 <b>liability</b> 3:13 11:22 18:17 53:1 53:3 54:10,10 123:13 <b>lifland</b> 118:10 <b>light</b> 48:14 63:6 111:4	<b>live</b> 60:15 <b>lively</b> 13:12 <b>llp</b> 5:2,12,20 6:1 7:7,14 8:1,6 10:8 <b>loaded</b> 111:25 <b>loan</b> 27:22 59:17 <b>loans</b> 19:24 61:5 <b>local</b> 116:5 <b>logic</b> 106:22 <b>logically</b> 117:15 <b>lohmann</b> 59:19 60:7	<b>m</b> <b>m</b> 6:7 7:12 83:5 <b>madison</b> 6:13 <b>magnitude</b> 46:16 <b>mail</b> 54:23 57:24

<b>main</b> 6:11 32:12	<b>margaret</b> 53:25	<b>mcclammy</b> 5:10	31:12,20 40:6
<b>maintain</b> 2:6 53:9	<b>marginally</b> 71:22	74:21,21	43:10 46:12
92:8 125:7	<b>mark</b> 77:1	<b>mckesson</b> 9:8	<b>membership</b>
<b>major</b> 13:6 15:22	<b>marked</b> 122:13	11:4 32:22	27:14 30:1
45:20 46:25 47:9	<b>market</b> 64:14	38:24	<b>memorialized</b>
91:4 116:18,18	66:13 67:3 68:8	<b>mean</b> 36:10 51:19	39:18
<b>majority</b> 13:22	68:17,21 81:16	61:1 90:2 98:5	<b>mention</b> 13:15
40:14 78:22	82:14,16 87:17	108:2,14,24 110:4	16:3,10 17:21
<b>making</b> 24:25	91:16 95:20 96:4	<b>meaning</b> 60:10,25	31:25 38:23
85:19 87:16 91:15	96:9,10,13,21	<b>means</b> 61:1,8 83:7	<b>mentioned</b> 18:4
98:9,21 100:9	97:5 98:22 99:13	90:14	37:3,5 119:7
103:22 117:4,7	103:14 105:23	<b>meat</b> 11:8 24:7	<b>mentioning</b> 32:4
<b>manage</b> 82:11	107:7,9,9 112:20	<b>mechanism</b> 47:8	<b>merely</b> 38:12
<b>manageable</b>	113:12,14 115:3	<b>mechanisms</b>	103:17 117:2
119:11	117:24	47:11	<b>methods</b> 93:10
<b>managed</b> 67:8,20	<b>marketing</b> 72:24	<b>media</b> 19:2 20:14	<b>metric</b> 67:15
67:23 82:17,19	73:9 76:2 121:10	31:3,6	<b>metrics</b> 67:16
84:2,4,9,20 85:1	<b>marketplace</b>	<b>medicaid</b> 84:12	97:16,18 120:1,4
88:6 89:24,25	85:20	89:14	<b>michael</b> 8:11
90:4 96:12 98:10	<b>marshall</b> 5:7 10:8	<b>medical</b> 11:24	53:24
99:3 101:17	25:17	22:10 28:6 80:23	<b>microphone</b>
120:10	<b>maryland</b> 19:17	84:25,25 85:1,2,4	102:22 103:1
<b>management</b>	<b>massive</b> 25:2	90:17	<b>milbank</b> 5:20
110:19 116:21	38:25 47:9	<b>medicare</b> 84:12	<b>milestone</b> 11:12
117:4	<b>masumoto</b> 6:24	<b>medication</b> 89:13	<b>milestones</b> 42:1
<b>manager</b> 97:24	<b>material</b> 14:10	96:1,2 99:1	<b>million</b> 12:20
<b>managing</b> 96:12	101:6	<b>medications</b> 80:21	19:23 20:3 21:8
<b>manifested</b> 20:20	<b>materials</b> 84:9,19	81:3 85:19 87:11	104:1,2,9,10
<b>manifesting</b> 16:13	<b>matter</b> 1:5 47:2	87:13,15,16,17,18	<b>millions</b> 23:10
<b>manner</b> 36:17	49:24 59:8 104:21	87:21,24,24 88:2	<b>mind</b> 46:1 83:19
43:9	<b>matters</b> 45:2	96:10 98:14,21	<b>minded</b> 36:1
<b>manufactured</b>	48:10 50:11,16	99:4 112:19 113:2	<b>mineola</b> 126:24
79:20	86:12 111:17	<b>medicine</b> 112:25	<b>minimize</b> 45:6
<b>manufacturer</b>	120:19 122:11	<b>meet</b> 17:9 115:11	<b>minimizing</b> 49:1
28:25 81:23 82:6	<b>maura</b> 8:4	115:13	<b>minimum</b> 12:9,25
91:4	<b>maximization</b>	<b>meeting</b> 14:24	17:5 20:11 23:1
<b>manufactures</b>	10:17	<b>meetings</b> 76:17	77:1 94:3
79:21,22	<b>maximize</b> 12:16	<b>melissa</b> 8:20	<b>minute</b> 17:10
<b>manufacturing</b>	14:10 22:13 86:23	111:1	79:15 82:8
22:10 64:9 76:8	<b>maximizes</b> 34:3	<b>member</b> 15:25	<b>minutes</b> 15:21
92:1,2,6,9 93:9,13	<b>maximizing</b> 14:25	40:4	<b>misbranding</b> 73:4
<b>march</b> 19:13	<b>maximum</b> 93:3	<b>members</b> 29:22	74:20 75:21 76:4
	94:4 97:2	30:6,9,11,22,25	77:18

<b>misconduct</b> 72:22 72:23 73:8,18,25 80:10,12,14 86:7 86:20 <b>misheard</b> 81:15 <b>misimpression</b> 109:10 <b>misinformation</b> 19:6 <b>missing</b> 22:23 <b>mistake</b> 22:6 <b>misunderstanding</b> 22:7 <b>misunderstood</b> 71:6,11 <b>mitch</b> 25:17 <b>mitchell</b> 7:21 <b>mitigates</b> 53:11 <b>model</b> 91:1 102:9 <b>moderately</b> 90:24 <b>modest</b> 64:6 <b>modified</b> 61:13 97:11 <b>modify</b> 117:17 <b>molton</b> 9:5 <b>moment</b> 64:8 <b>monday</b> 11:6 <b>monetary</b> 46:13 <b>money</b> 15:5 41:11 46:18 48:1,17 101:10 102:15 <b>monies</b> 49:2 <b>monitor</b> 89:23 <b>monitoring</b> 28:6 <b>monoghan</b> 8:4 <b>month</b> 21:25 34:19 <b>months</b> 17:5 21:11 69:4 88:20 90:25 93:24 94:6 <b>monumental</b> 26:18	<b>morale</b> 86:21 25:10,23 36:25 39:8 49:9 61:20 66:3 111:1 <b>motion</b> 2:3 3:5,11 3:18,22 4:4,12 13:19 26:23 36:21 42:12 49:24,25 51:5,9,20 52:2,6,7 52:8 54:15,16,22 55:6,7,8 56:5,8,11 56:19,21,24,25 57:4,17 58:2,6,21 58:21 59:9,10 61:10,12,17,24,25 62:18 74:11 100:16 110:25 111:4 114:9,10 116:25 117:9 120:20 121:16 122:7 123:5,11,18 124:5,12,21 125:5 <b>motions</b> 36:12,12 54:20 <b>motivate</b> 96:5 97:7 <b>motivated</b> 96:3 113:18 <b>motivating</b> 119:22 <b>motivation</b> 119:21 <b>motivations</b> 41:6 <b>move</b> 13:17 30:2 42:15 92:15 107:5 108:22 <b>moving</b> 11:10 21:14 46:6 65:7 <b>multi</b> 21:14 <b>multiple</b> 17:5,13 21:15 <b>municipalities</b> 2:14 26:16 28:12 32:22 39:1,10	40:6 43:4 44:8 47:23 <b>mustn't</b> 47:12 <b>n</b> <b>n</b> 5:1 7:4 10:1 65:24,24 123:1,3 124:1,3 125:1,3 125:14,16 126:1 <b>naftalis</b> 5:12 <b>name</b> 65:22 66:3 <b>names</b> 30:9 <b>narotam</b> 1:25 <b>narrow</b> 63:25 115:7 <b>narrowly</b> 119:8 <b>nas</b> 26:16 27:18 28:5 <b>nationwide</b> 26:12 45:22 <b>native</b> 9:12 28:13 <b>nature</b> 75:1 106:4 112:18 <b>nauseam</b> 113:23 <b>near</b> 41:5 <b>nearly</b> 12:6 <b>necessarily</b> 24:18 46:21 <b>necessary</b> 38:17 43:22 95:18 97:6 107:10 117:20,21 <b>necessity</b> 95:7 <b>neck</b> 42:1 <b>need</b> 11:22 15:15 18:22 27:25 33:17 41:10 42:22 43:5 64:2 66:6 75:6 87:18 98:25 99:5 100:13 106:20 107:1 112:2,20,25 113:3,7,8 118:20 <b>needed</b> 26:15 90:1 92:10 118:21	<b>needless</b> 92:21 <b>needlessly</b> 23:9 63:10 <b>needs</b> 22:22 26:13 40:19 41:24 42:18 46:9 86:8 92:18 96:3 113:18 <b>negative</b> 121:18 <b>negotiated</b> 50:12 52:19 106:18 <b>negotiating</b> 96:11 101:23 <b>negotiation</b> 42:6 <b>negotiations</b> 17:13,16 41:15 <b>neither</b> 19:15 <b>neonatal</b> 27:18 <b>nest</b> 117:3 <b>nest</b> 116:22 117:3 <b>net</b> 12:7,11,14,18 12:20,23 104:4 <b>nevada</b> 2:14 <b>new</b> 1:2,15 3:2 5:5 5:5,15,15,23,23 6:5,5,21,21 7:10 7:17 8:9 20:25 40:23 53:5 54:8 55:20 64:19 95:24 96:1,2,7 101:21 <b>newly</b> 11:15 96:1 <b>news</b> 15:3 <b>night</b> 11:6 113:1 <b>nilly</b> 30:22 <b>nine</b> 15:24 27:6 <b>non</b> 2:20 7:8 18:1 19:15 20:4,10 21:4,7,9 43:17 44:5 48:4 63:17 64:6,15 67:12 92:10,25 94:5 97:1
--	--	--	--

[normal - opportunity]

Page 21

<b>normal</b> 111:14	<b>object</b> 2:12 35:24	<b>october</b> 1:17 53:3	<b>oklahoma</b> 88:20
<b>normally</b> 45:2	65:4 104:11 112:5	126:19	88:22 91:1
<b>north</b> 92:1	<b>objected</b> 117:14	<b>offensive</b> 22:21	<b>old</b> 8:7 52:14,17
<b>note</b> 15:3 17:18	<b>objecting</b> 105:2	<b>offer</b> 98:11 113:10	52:25,25 53:8,12
31:23 33:7 45:10	105:11,12,18,24	<b>offers</b> 79:2	53:15,19 126:22
50:14 60:16	<b>objection</b> 2:15,18	<b>office</b> 6:18 24:6	<b>once</b> 12:22 37:2
113:15	2:20,23 27:2 52:3	27:6 65:17 66:4	55:3 92:19 122:12
<b>noted</b> 34:5 35:15	54:22 55:13 86:14	92:16	<b>one's</b> 110:20
35:15,23 36:3	110:18,21 114:20	<b>officer</b> 19:2 65:10	115:25
49:10 58:24,25	117:24 119:1,3,6	<b>official</b> 7:2 13:25	<b>ones</b> 36:14 51:7
121:7	120:17 121:14	15:13,25 24:16	<b>ongoing</b> 41:9
<b>notice</b> 2:1 13:19	122:8,9,11	25:12,24 26:10	43:17
52:4	<b>objections</b> 36:12	27:5 29:22 30:2	<b>open</b> 36:1
<b>noticed</b> 36:23	50:23 54:18 61:14	42:5 43:2 50:12	<b>opening</b> 17:5 24:9
<b>notifications</b>	120:19	114:13	<b>operating</b> 87:20
92:20	<b>objectives</b> 10:17	<b>officials</b> 21:20	112:11
<b>notion</b> 22:20	67:11,13,18 104:4	<b>oh</b> 79:19 103:7	<b>operations</b> 41:12
112:15	<b>objectors</b> 10:13	<b>okay</b> 10:2 25:9,22	64:10 92:2,7,9
<b>notwithstanding</b>	<b>objects</b> 115:3	26:2,4 38:4,8 39:7	95:15
122:3	<b>obligates</b> 13:17	44:2,25 48:10	<b>operators</b> 93:14
<b>november</b> 63:11	<b>obligations</b> 2:7	49:7,14 51:4,24	<b>opioid</b> 12:4 15:9
63:20 79:9 100:10	3:14 4:6 16:20	52:1,16 53:22	22:19 23:12 26:11
100:18 114:24	41:14 53:18 55:19	54:14 55:16,24	28:9,25 29:3
<b>novo</b> 79:5	58:25 94:14,19	56:18 57:8,15	32:17 35:3 37:23
<b>number</b> 13:5	123:14 124:14	58:4,20 59:13	41:1,4 45:22
20:24 38:20 49:13	125:9	60:19,21 61:9,19	46:13 66:15,24
52:7 55:7 56:23	<b>observations</b>	65:14,19,25 68:4	67:2,12 79:22
58:3 59:9 61:17	39:14	68:7 69:11 70:3	80:17,21 81:3,13
61:23,25 69:13	<b>obtained</b> 118:14	70:12 71:7,11,16	81:17 82:21 87:14
71:20 78:23 80:9	<b>obvious</b> 34:1	71:21 72:1,11	87:16,21 96:19
94:24 99:12	46:20	73:6 74:14 75:11	98:13 103:17
<b>numbers</b> 21:11	<b>obviously</b> 24:23	75:17 77:11 78:5	104:13 108:10
103:22	26:25 38:11,14	79:14 80:4,20,25	112:19 113:2
<b>numerator</b> 29:16	60:6 72:14 86:24	81:5,10,12 83:12	120:22 121:7
32:12,18 34:17	88:12 106:2	83:15 85:10,12,23	<b>opioids</b> 67:6,15
<b>nurse</b> 90:10	108:11 115:16	86:1 91:10,20,23	68:2,3 72:3,4,5,13
<b>ny</b> 6:2 7:10,17 8:9	122:8	95:5,6,21,22 98:2	72:14,15,15 88:5
126:24	<b>occasion</b> 109:15	99:9,10,15 100:24	95:24 103:14
	109:15	101:11 102:13	104:1,2,4,9,10,20
<b>o</b>	<b>occasionally</b>	104:7,19,23 105:3	107:14,18 112:15
<b>o</b> 1:22 10:1 65:24	114:1	110:17 111:9	<b>opportunity</b>
65:24 83:5 126:1	<b>occur</b> 37:5 41:4	122:17,21	26:14 43:1,3
<b>oath</b> 91:6 103:8	87:25 120:22		

[opposed - payment]

Page 22

<b>opposed</b> 117:8 119:17	<b>organizations</b> 67:9,20,23 82:20	124:4 125:4,17 <b>paid</b> 19:16,24 53:9 64:13,18 68:20 99:24 112:16 117:16	<b>parties</b> 4:6 10:25 13:16 15:15 16:25 17:13 18:15 19:5 20:18 21:15 27:4 30:4,5,7 31:16 32:20 34:9,23,24 35:18 37:12 41:13 41:16,21 42:17,21 43:10,14,19 44:21 45:1,4,19 46:6,11 50:14,24 59:6 60:11,14,25 61:13 81:18 101:3 110:18 111:18 116:12 117:13 124:14
<b>opposing</b> 13:7 21:19	<b>oric</b> 52:18 53:19 53:25 54:2,7	<b>originally</b> 118:10 <b>orms</b> 4:24 126:3,9 <b>outlining</b> 32:24 <b>outreach</b> 90:19 <b>outset</b> 39:15 41:7 43:13 50:17	<b>pain</b> 80:21 81:3 87:14,16 98:13 107:22 112:21 <b>painful</b> 22:2 <b>paragraph</b> 51:8 52:17,22,24 53:11 56:9 57:6,22 59:18,19,23 60:7
<b>opposition</b> 56:19	<b>outside</b> 44:21 54:2	<b>overcompensati...</b> 119:23	66:10 68:25 70:20 71:10,13 99:18,21 100:3,4 105:13 114:16 122:10
<b>optimal</b> 96:9	<b>outstanding</b> 2:8 59:24 125:10	<b>overlap</b> 16:18 <b>overlapping</b> 48:16	<b>parent</b> 19:22 21:2 <b>parents</b> 27:17 <b>park</b> 7:16 <b>parochial</b> 31:21 36:15 38:2
<b>oral</b> 117:11 119:7 121:13	<b>overpay</b> 119:21	<b>overspending</b> 119:14	<b>part</b> 30:12 31:1,3 32:1,19 35:5,17 35:22 36:2 37:18 48:12 53:4 68:15
<b>orange</b> 47:10 48:19	<b>overrule</b> 122:7,10	<b>owner</b> 23:6	70:23 73:21 74:24 88:16,20 98:18,24 99:3,6,7 106:19
<b>order</b> 2:3 15:20 40:19 41:24 43:5 49:25,25 50:2,12 50:15,25 51:1,1,3 51:7,9,12 52:4,7 52:10,13,22 54:3 54:18,23,25 55:7 55:10,12,13,22,23 56:1,3,16,19,24 57:1,8,16,24 58:5 58:7,12,13,16,17 58:19,24 59:10,12 59:18 60:1,5 61:13,25 62:1 63:15,22,25 84:5 94:11 97:11,12 99:11,13 100:18 108:13 110:19 114:11,17 122:3 122:12 125:5	<b>overseas</b> 13:5,8 41:12	<b>owners</b> 97:8 113:21	<b>participants</b> 95:1 <b>participate</b> 41:24 76:17
<b>ordered</b> 18:5	<b>ownership</b> 14:5 23:4	<b>oxy</b> 90:20	<b>participated</b> 73:17
<b>orderly</b> 95:8	<b>oxycontin</b> 14:16 72:24 73:4,9 74:20 75:22 76:4 77:19 79:21 84:3 90:4 108:9 112:24	<b>oxy</b> 90:20	<b>participating</b> 73:25
<b>orders</b> 3:6,12,19 3:23 4:5,13 46:15 50:4,5 55:19 59:3 59:20 98:9 122:13 123:6,11,18 124:6 124:12,21	<b>p</b>	<b>particular</b> 68:9 76:18 117:6 118:22 122:6	<b>particular</b> 68:9 76:18 117:6 118:22 122:6
<b>organization</b> 68:13 70:22 76:2 76:7,9 86:16 89:10	<b>p</b> 5:1,1 10:1 <b>p.m.</b> 122:23 <b>pa</b> 8:18 <b>packaging</b> 93:14 <b>page</b> 21:14 56:8 116:10 123:4	<b>particularly</b> 30:21 89:22 101:6	<b>particularly</b> 30:21 89:22 101:6 <b>partied</b> 11:12

## [payment - pleading]

Page 23

84:12 95:10 99:19 115:8,9,12,20,25 116:1 124:22 <b>payments</b> 3:3 51:10 64:11 78:25 93:1,2 96:8,16,21 116:7 121:24 <b>payors</b> 40:10 <b>payout</b> 94:13 97:1 97:3 <b>payouts</b> 99:7 <b>pays</b> 103:15 113:17 <b>pc</b> 38:24 <b>peace</b> 113:1 <b>pec</b> 11:4 <b>pendency</b> 31:6 <b>pending</b> 54:3 <b>pennsylvania</b> 8:13,14 111:2 <b>pennsylvania's</b> 2:17 <b>penny</b> 19:24,24 <b>pension</b> 27:21 <b>people</b> 15:2,3 23:24 32:4,8 35:4 46:16 47:22,24 64:12,17 65:1 67:6,16 68:4,11 68:12,12 69:13,15 69:16,17,18,19,21 70:4,6,7,13 71:1,3 71:9,13,25 72:17 73:6,13,17 74:24 75:4,19,24,25 76:1,6,11 81:6,16 82:7,18,19 85:2 86:21 89:1,20 94:1,16,20 101:20 104:9 105:17 107:23 109:18,25 110:4,23 111:15 112:1,4,10,16,21	112:25 113:1,3,7 113:9 118:17 119:9,18 120:21 121:1,15 <b>people's</b> 99:4 <b>perceived</b> 88:22 <b>percent</b> 12:14,21 12:21 13:9,23 16:7 18:2 21:9,10 34:12,12 38:9,10 38:13 44:6 67:11 67:11,12,15,16 97:13,17,21 98:16 101:9 <b>percentage</b> 38:25 <b>perception</b> 31:12 111:22 <b>perform</b> 108:5 <b>performance</b> 3:25 96:13 97:14,19,23 97:24,25 98:1,19 98:22 99:6,7 101:21 104:15,16 124:8 <b>performing</b> 118:23 <b>period</b> 18:7,7 21:2 21:5,7 34:19 36:6 36:13 73:15 77:13 77:20 92:5 96:19 <b>permit</b> 4:8 124:16 <b>permitted</b> 31:18 <b>person</b> 17:9 24:24 82:16 84:8 89:11 93:6 97:2 109:20 122:6 <b>personal</b> 26:16 27:16 28:3,6 32:6 <b>personally</b> 26:19 32:2 62:8 <b>personnel</b> 81:7,7 <b>perspective</b> 16:14 72:16	<b>persuade</b> 100:12 <b>pertain</b> 45:1 <b>pertaining</b> 45:9 115:20 119:9 <b>pertains</b> 70:20 <b>peter</b> 9:11 <b>petition</b> 18:3 20:9 59:21 60:12 64:23 94:10 <b>pg&amp;e</b> 37:24 <b>ph</b> 27:17,19,20 64:5 107:18 <b>pharma</b> 1:7 3:3 10:3 <b>pharmaceutical</b> 12:8 68:8 82:18 87:9,21 89:4 91:4 93:14,15 97:6 <b>pharmaceutics</b> 93:5 <b>pharmacists</b> 90:11 <b>pharmacy</b> 82:24 83:9 98:10 <b>phone</b> 13:16 52:15 53:25 <b>phrase</b> 60:11 73:10 91:16 <b>phrases</b> 71:2 <b>phrasing</b> 73:11 <b>physicians</b> 112:20 <b>pick</b> 14:1 83:9 <b>pickering</b> 115:6 <b>picking</b> 103:2 <b>piercing</b> 18:15 23:7 <b>pile</b> 54:4 <b>pillsbury</b> 6:1 7:7 44:4 <b>pittman</b> 6:1 7:7 <b>place</b> 29:21 38:1 43:19 63:21 87:4 88:15 89:19 93:19	113:16,17 115:19 <b>places</b> 48:17 <b>plains</b> 1:15 <b>plaintiff</b> 18:14 <b>plaintiff's</b> 32:21 40:7 <b>plaintiffs</b> 6:10 11:5 12:16 20:22 28:4 38:24 88:17 <b>plan</b> 16:15 41:25 42:14,25 43:4,6 43:23 48:2 63:12 63:13,17 64:5 68:5 69:3 75:4 78:15,18,19 81:1 81:6 82:17,24 83:8,11 89:14,14 91:24 92:25 93:4 93:12,18,19 95:1 95:10,20,23 96:5 97:13,19 101:6,20 103:15 105:2,12 105:21,23 106:16 106:18 107:7 109:12 111:23 113:12 117:14,17 117:18,19 118:13 118:15,16,18,20 120:1 <b>planning</b> 91:7 <b>plans</b> 36:11 62:23 78:7 84:3 94:17 95:18 104:14 <b>plant</b> 81:2 88:2 92:3,7 113:8,10 117:13 <b>play</b> 26:14 <b>plea</b> 73:3,21 74:4 74:19 77:17,24,25 78:3 80:11 <b>plead</b> 76:13 78:2 <b>pleading</b> 86:14 110:21
--	--	---	--

<b>pleadings</b> 31:10 116:17	<b>position</b> 33:5 34:14 36:20,24,24 37:6	<b>preliminary</b> 26:23 34:19 36:20 44:15 45:16	<b>presenting</b> 27:1 48:9
<b>please</b> 10:7 20:17 22:5 65:20,23 86:13	<b>positions</b> 68:9,14	<b>premised</b> 119:1	<b>preserve</b> 22:16 86:23 122:9
<b>pleased</b> 47:18	<b>possibility</b> 22:6 121:15	<b>premiums</b> 28:8	<b>preserved</b> 122:2
<b>pleases</b> 49:10	<b>possible</b> 10:12 43:24 48:1 68:20	<b>preparation</b> 92:13,17,19	<b>president</b> 69:12 69:14,15 70:5,13
<b>pled</b> 75:22	68:22 79:12 97:3	<b>prepare</b> 22:16	70:18,19,19,23
<b>pledge</b> 10:15	<b>possibly</b> 12:6 22:18 35:20 46:21 62:15 90:17	<b>prepared</b> 26:1 74:7	71:1,3,9,14 94:1
<b>plifka</b> 9:12	<b>post</b> 14:6 40:23 61:7 64:23 94:10	<b>prepetiion</b> 3:6 123:7	<b>presidents</b> 69:3,5 69:24 70:1,6,8,10
<b>plimpton</b> 8:1	<b>posting</b> 79:5	<b>prepetition</b> 2:4 4:5,13 54:12 56:13 59:20,25	70:17 71:18 76:15 76:17,22 77:3,8
<b>plus</b> 94:7	<b>potential</b> 10:13 18:10,14,16 33:20 48:14 55:13 90:14 94:18 100:6 118:16	<b>prescribe</b> 99:1	77:11 93:21,22
<b>podium</b> 21:18 44:9 61:16	<b>potentially</b> 37:19 60:10	<b>prescribed</b> 14:17 83:13 87:18 98:6 107:21 121:8	109:13 110:10 113:25
<b>point</b> 24:14 30:3 30:15 31:15,15 33:16,16 34:20 36:19 38:20 39:4 41:17 45:21 54:19 56:7 57:5,21 64:19 94:9 100:2 107:17 108:22 109:11 112:14	<b>power</b> 44:20	<b>prescriber</b> 66:25 67:1 82:13 90:19	<b>press</b> 20:25 31:2,5 31:14,16,17 34:8
<b>pointed</b> 99:18 120:5	<b>practice</b> 87:20	<b>prescribers</b> 66:15 67:7 72:13 80:21 81:17,24 87:12	<b>pressing</b> 49:4
<b>pointing</b> 44:3	<b>practices</b> 87:3 88:5,10,15,22,23 89:19 108:12,16	<b>89:6 90:3,10,14 91:18,19 96:19 102:6</b>	<b>presumably</b> 15:12
<b>points</b> 33:8 48:25 111:24 113:4 119:2,24	<b>potentially</b> 37:19 60:10	<b>prescribing</b> 82:3	<b>pretty</b> 61:7 77:14 79:1 90:7 91:5
<b>policies</b> 3:14 33:21 52:25 53:7 53:7,8,10,13,19 123:14	<b>practitioners</b> 90:10	<b>prescription</b> 67:1 85:21,21 87:11 107:23,24 112:20	<b>prevent</b> 116:20
<b>policy</b> 53:2,5 54:8 54:8	<b>pre</b> 61:7 116:4	<b>prescriptions</b> 102:6,7 103:17	<b>previous</b> 21:1
<b>polk</b> 5:2 10:8 19:13 49:16 55:4 61:21 74:22	<b>precedent</b> 37:24 48:18 61:2	<b>present</b> 50:21 52:15 65:11 76:20 76:23	<b>primarily</b> 67:20
<b>population</b> 40:13 44:7	<b>precise</b> 91:12	<b>presentation</b> 20:18 76:24 77:2	<b>primary</b> 18:23 19:20 53:2 54:2,9
<b>portion</b> 69:9 81:15	<b>preexisting</b> 115:15	<b>presentations</b> 20:21	<b>principal</b> 62:14
	<b>prefer</b> 50:6	<b>presented</b> 76:24	<b>print</b> 48:12
	<b>preference</b> 18:14		<b>prior</b> 24:6 42:13 51:11 94:7
	<b>prejudging</b> 33:17		<b>priority</b> 116:8
	<b>preliminarily</b> 35:15		<b>pris</b> 7:20
			<b>private</b> 27:21 28:2 28:3,4,4,10,14,18 29:13
			<b>privilege</b> 26:10
			<b>priz</b> 16:1 25:16,18 25:23,23 26:6,9
			30:24 38:5,20
			39:12 44:9 45:15
			<b>priz's</b> 38:16

<b>pro</b> 33:25 54:2,19 54:20	93:8 96:7 102:7 103:18,18 107:18	<b>progress</b> 10:12 15:16	<b>protection</b> 15:19 54:13
<b>probably</b> 19:10 38:23 90:22 91:2 91:8 108:12	107:20 109:3	<b>prohibited</b> 115:8	<b>protections</b> 53:14
<b>problem</b> 26:12 43:8 100:23	<b>production</b> 79:25 93:10	<b>prohibiting</b> 3:23 124:6	<b>protest</b> 44:17
<b>problematically</b> 73:11	<b>productive</b> 30:23 <b>productively</b> 15:24	<b>promised</b> 10:10 95:11	<b>protocol</b> 37:4,18 45:15
<b>problems</b> 107:23	<b>products</b> 53:1 66:15,24 67:24,25	<b>promises</b> 113:9	<b>protracted</b> 34:20 41:5
<b>procedures</b> 4:1 30:19 89:19 124:9	67:25 68:2,3 79:23 81:2,18	<b>promotes</b> 32:16 80:21	<b>proven</b> 47:11
<b>proceed</b> 2:8 10:5 11:16 23:18 48:7 49:12 74:5,9 125:9	82:13,20,21,21,22 87:7 91:15 93:10 96:3,12,19 101:18 101:25 120:22 121:7,10	<b>promoting</b> 90:13 <b>promotion</b> 66:14 66:23 67:6 72:14 82:4 87:11 90:9 91:16,17 96:18 98:14 102:5	<b>provide</b> 30:10 42:24,25 43:1,3,7 53:2,9 67:25 84:4 84:19,23 85:4
<b>proceedings</b> 22:7 122:23 126:5	<b>professional</b> 13:18 49:1	<b>promotional</b> 82:5 84:9,19	<b>provided</b> 33:1 41:9 42:9 55:12 56:12 67:17 110:6
<b>proceeds</b> 12:7,11 12:15,18,20,23 13:11 22:17 28:24 36:16	<b>professionally</b> 15:24	<b>promptly</b> 13:18	<b>providers</b> 52:13
<b>process</b> 2:9 3:8,15 4:10,15 15:17 23:11 34:18 41:18 42:3,22 43:10,21 45:12,13 46:7,7 47:16 48:13 91:25 93:15 112:10 117:4 123:8,16 124:18,24 125:11	<b>proffer</b> 66:17 101:8,11	<b>proof</b> 18:9	<b>provides</b> 17:4 42:11 59:19 94:6
<b>processes</b> 93:9	<b>program</b> 3:20 56:13 64:14,15 67:4,4,10 76:16 83:10 96:16 97:6	<b>proper</b> 13:19 121:8,10	<b>providing</b> 15:11 92:20 98:5
<b>procure</b> 37:14	99:23 100:9 115:4 115:14,15,16,23	<b>properly</b> 108:1 119:14,22,24 121:8	<b>province</b> 27:12
<b>produce</b> 62:5	116:12 117:25	<b>property</b> 3:13 22:11 123:13	<b>provision</b> 13:21
<b>produced</b> 64:9 79:20	118:1,5,9,12 119:9,13,16,20	<b>proportions</b> 26:13	<b>provisions</b> 15:19 18:5 48:25 58:15 91:3
<b>produces</b> 81:2	120:16,20 121:16 123:20	<b>proposal</b> 14:24 118:18	<b>proviso</b> 56:9,10 100:4
<b>producing</b> 25:2	<b>programs</b> 2:6 4:7 4:9 58:2,6,12 62:21,24,25 63:2	<b>propose</b> 30:19 91:20	<b>public</b> 12:1 14:12 21:19 28:11,14,18 29:13 32:14,16 34:13,25 35:11
<b>product</b> 14:16,20 20:6 54:10 67:2 67:12 81:25 82:10 83:9,10 85:3 86:25 89:7 90:21	63:25 65:7 86:9 91:21 95:7 111:18 114:12,16,21,23 120:4 121:22 124:15,17 125:8	<b>proposed</b> 25:11 25:24 48:24 50:2 50:4 52:9 54:23 55:9,12 57:1 58:7 59:12,18 62:1 97:12 99:11 114:16 118:14	36:17 41:3 48:5 86:19 111:15,16 111:22
		<b>proposing</b> 119:20 <b>protecting</b> 22:4 22:20	<b>publication</b> 82:4 <b>publicity</b> 120:8 <b>puerto</b> 11:4 <b>purchase</b> 59:20 <b>purchaser</b> 79:3,11 <b>purchasing</b> 99:22 100:9

<b>purdue</b> 1:7 3:3 10:2,9 13:2 19:14 19:21,23 20:1,6 20:15,16 21:25 22:1,8,20 23:5 28:15,24 33:20 35:2,4 45:20,25 73:3 75:22 76:12 78:2 80:17,20 85:16,17,19 86:16 87:13 88:13 90:25 91:18 92:4 96:10 96:12 98:25 113:17 <b>purdue's</b> 19:22 20:22 21:1 22:2 35:8,9 46:2 95:23 97:8 108:9 <b>purport</b> 87:8 88:8 <b>purpose</b> 103:8 112:8 116:22 <b>purposes</b> 13:10 48:6 70:25 116:13 117:19 <b>pursuing</b> 16:25 119:3 <b>pushed</b> 111:13 <b>put</b> 18:6 33:3 45:25 46:18 56:11 100:23 108:13 <b>puts</b> 11:7 <b>putting</b> 32:6	79:19 81:13 83:19 83:20 84:7 85:24 86:6 101:9 103:8 103:20 104:6 106:3 108:4 <b>questionable</b> 115:18 <b>questioning</b> 89:18 <b>questions</b> 51:2 56:4 57:12 58:18 60:4 65:4,12,17 66:5 74:9 80:3,8,9 81:1 83:15 84:25 85:9,12 86:12 95:19 97:10 101:7 114:8 <b>quick</b> 41:25 102:16 <b>quicker</b> 66:9 <b>quickly</b> 33:25 <b>quite</b> 51:8 91:7 <b>quo</b> 63:22 <b>quote</b> 20:15 97:14	<b>reaching</b> 41:17 62:14 91:19 <b>reactions</b> 19:1 <b>read</b> 20:14 55:13 72:21 <b>reading</b> 52:18 <b>ready</b> 11:16 <b>realize</b> 13:10 <b>realized</b> 12:12 <b>really</b> 49:3 61:6 74:24 89:2,3,5 98:6 104:12 106:22 112:5 117:18 122:5 <b>reaping</b> 67:14 <b>reason</b> 18:23 35:1 49:4 91:11 102:15 <b>reasonable</b> 118:13,15,17 <b>reasons</b> 25:13 87:25 88:24 114:1 <b>rebuttal</b> 110:25 <b>recall</b> 70:24 71:5 77:5,6 <b>receive</b> 50:23 58:11 69:6 78:8 78:10,14 79:8 95:9 117:13 118:23 <b>received</b> 12:13 28:24 52:10 57:3 59:16 61:13 69:4 120:9 <b>receiving</b> 78:17 78:17,21,24 <b>recognize</b> 34:23 40:16 41:22 46:7 <b>recognized</b> 87:3 88:4 <b>recollection</b> 77:20 <b>record</b> 24:17,21 39:2 49:16 52:2 54:16 55:14 56:20	57:18 58:23 60:17 61:11,21 65:23 105:1 118:2 119:5 120:24 122:5 126:5 <b>recovery</b> 12:17 <b>recross</b> 83:24 <b>redirect</b> 74:13 80:4,6 81:11 85:12,13 <b>reduced</b> 53:17,18 <b>reducible</b> 18:1 <b>reducing</b> 44:13 <b>reduction</b> 84:17 <b>refer</b> 28:2,11 66:7 66:10 82:14,17 <b>reference</b> 31:15 56:10 68:24 <b>referenced</b> 20:19 21:13 24:24 39:20 69:16,19 70:9,11 72:17 73:6 105:13 <b>references</b> 73:2 <b>referring</b> 15:4 52:22 83:2 <b>reflect</b> 56:17 58:13 60:1 <b>reflected</b> 52:13 <b>refrain</b> 30:7 31:5 <b>refusing</b> 3:23 124:7 <b>regard</b> 32:18 36:8 105:17 120:19 121:18 <b>regarding</b> 24:10 24:20 31:6 52:17 56:4 57:12 74:20 78:7 99:19 105:6 105:6,9 <b>regards</b> 33:23 <b>regular</b> 24:15 59:5
<b>q</b> <b>q3</b> 67:10 <b>q4</b> 67:10 <b>qualified</b> 121:19 <b>qualify</b> 96:22 <b>quality</b> 92:8 <b>quarropas</b> 1:14 <b>question</b> 51:6 52:17 66:11,20,23 68:23 71:6,18 73:11 75:7 78:17	<b>r</b> <b>r</b> 1:22 5:1 7:5 10:1 83:5,5 123:3 124:3 125:3 126:1 <b>r&amp;d</b> 76:8 <b>rachel</b> 5:18 <b>rai</b> 1:25 <b>raise</b> 34:5 65:20 <b>raised</b> 83:19 <b>raises</b> 52:16 <b>range</b> 46:14 92:12 <b>rare</b> 76:18 <b>rate</b> 13:9 <b>raymond</b> 5:21 <b>rdd</b> 1:3 <b>reach</b> 17:8 50:18 86:13 <b>reached</b> 11:1 20:12 22:25 62:19 111:5		

## [regulated - results]

Page 27

<b>regulated</b> 86:25 92:22 109:2	99:17,17 100:14 100:15 114:18	<b>reported</b> 20:24 <b>reporter</b> 83:1	<b>reserve</b> 44:23 <b>residential</b> 120:14
<b>regulations</b> 88:4	124:16	<b>reporting</b> 58:14 60:1 109:20	<b>resolve</b> 43:8 46:9 55:13
<b>regulators</b> 108:2 108:3	<b>relinquish</b> 23:3	<b>reports</b> 20:14 25:7 93:6	<b>resource</b> 68:14 <b>resources</b> 47:7 62:16
<b>regulatory</b> 87:3,9 92:20	<b>remain</b> 101:18	<b>represent</b> 26:10 38:25 44:6	<b>respect</b> 3:14 11:11 11:15 12:3 53:10
<b>reimbursable</b> 99:23	<b>remainder</b> 96:25	<b>representation</b> 16:10	57:6 62:18 63:16
<b>reimbursed</b> 14:18	<b>remaining</b> 55:25 59:25 96:25 97:3 117:24 122:9	<b>representative</b> 13:6	74:24 80:25 87:14 93:18 95:6 98:13
<b>reimbursement</b> 53:13 62:22	<b>remains</b> 11:23 14:16 41:19 101:25	<b>representatives</b> 14:4,9 80:22	98:21 110:24 113:4,12,22
<b>reinstallation</b> 92:14	<b>remarkable</b> 62:12	<b>represented</b> 13:7	123:14
<b>reiterate</b> 30:16 86:11	<b>remarks</b> 19:11 24:25 26:2 38:3 38:16 39:11 44:25 45:11	<b>representing</b> 29:12 30:5 32:8 39:9,16 44:4	<b>respectfully</b> 51:3 56:5 57:13 58:19 60:5
<b>reject</b> 33:11	<b>remediate</b> 29:5	<b>represents</b> 40:14 47:22	<b>respects</b> 17:3 111:15
<b>rejected</b> 108:10	<b>remediation</b> 41:3 41:4	<b>republic</b> 8:7 52:14 52:17,25 53:1,8 53:12,15	<b>respond</b> 24:1 112:12
<b>relate</b> 87:16 97:19 97:24	<b>remember</b> 112:23	<b>request</b> 3:2 51:3 54:8 56:5 57:13 58:19 59:19 60:5 86:11	<b>responds</b> 90:18 <b>response</b> 21:21 59:16 72:10
<b>related</b> 2:6,9 3:8 3:15 4:6,10,15 46:11 87:16,20 88:10 93:10 94:15 98:1 113:5 123:9 123:16 124:14,18 124:24 125:8,11	<b>remind</b> 20:17	<b>requested</b> 17:24 30:10 56:4 57:12 85:8 99:21	<b>responses</b> 57:3 <b>responsibilities</b> 93:8 117:7
<b>relates</b> 32:18 52:24 56:1	<b>reminder</b> 61:4	<b>requesting</b> 88:14	<b>responsibility</b> 45:23
<b>relating</b> 50:15	<b>remiss</b> 31:24	<b>requests</b> 4:1 59:5 65:6,8 124:10	<b>responsible</b> 85:19 85:20 96:9
<b>relationship</b> 15:23 118:13	<b>remotely</b> 38:16 76:1	<b>require</b> 53:8 76:19 112:22	<b>responsibly</b> 88:3
<b>relatively</b> 47:1 91:8 99:16	<b>removal</b> 18:6 92:14	<b>required</b> 15:8 22:14 53:15 92:20 94:12	<b>rest</b> 47:13
<b>relentlessly</b> 12:2	<b>remove</b> 101:22	<b>requires</b> 21:20 51:16	<b>restrictive</b> 91:3
<b>relevant</b> 17:2,9 30:20 45:18 64:2 64:25 75:2 97:7	<b>renew</b> 3:12,19 55:20 123:12,19	<b>rescue</b> 22:17	<b>restructuring</b> 13:20 42:7,12
<b>relief</b> 4:7 37:20 49:11 50:25 56:4 56:5 57:12,13,18 61:11 62:7 63:23 64:20 74:25 88:14	<b>reorganization</b> 40:23 43:1	<b>reservation</b> 55:14	<b>result</b> 16:12 28:8 84:17
	<b>reorganized</b> 14:3 15:8		<b>resulted</b> 74:4 77:17
	<b>repeat</b> 77:22		<b>results</b> 63:13 97:3 118:14
	<b>repeated</b> 102:5		
	<b>replace</b> 95:13		
	<b>replacement</b> 54:8		
	<b>replied</b> 71:8		
	<b>report</b> 10:24 21:14 25:2 77:3,7 114:3		

[retain - securing]

Page 28

retain 81:6 88:1 95:12	rights 23:4 31:1 42:17 55:14 56:1 58:14 59:2 60:2 110:20 122:1	sackler 5:21 22:21 23:1 32:23 40:25 41:1 46:12	schwartzberg 6:23 23:23 24:1,4 24:5 65:16,16 66:2,3,19,21,22
retained 19:14	ringer 5:18	sacklers 12:16 22:4 28:17,25	72:8 73:12 74:8
retention 63:17 64:5 78:15,18,19 78:25 80:25 91:24 92:25 93:12 95:10 105:2,12 106:16 106:18 117:14,17 117:18,19	rise 25:13 39:4	33:19 35:5 36:15	74:10,15,16 75:5
rethinking 121:22	risk 18:6 53:12	37:4,12 41:10,11	75:12,14,17,18
retirees 2:7 125:9	road 126:22	42:10 43:15	79:15,18 80:2,9
revealed 20:15	robert 1:23	safe 87:22,23 91:8	81:1 100:25
revenue 72:15	robertson 5:8 48:9 49:8,15,16	safely 88:3	102:16,19,23
revenues 79:24	49:21,23 50:9 51:13,18,21,24	safety 32:14,17 35:1,11 36:18	103:3,6,10,13,19
review 15:10 68:15 115:18	52:5,21,24 53:6 53:20 55:3,4,17	92:8 95:16	103:22,25 104:5,8
revised 51:7 54:17 56:20 122:7	55:23,25 56:15,22 57:9,11 58:1,5	salaries 2:5 120:5 125:6	104:20,25 105:4
revisions 122:9	59:7,14 60:18 61:15 122:19	salary 119:17	105:13,20,23
rewarded 67:16 107:25	role 14:5 16:2 26:14,14 29:15	sale 12:7 67:15 72:3,4 87:6	106:1,23 107:5
rhodes 19:16 20:6	34:15 35:5	120:21	112:13 113:5
rico 11:4	roles 30:6 75:24	sales 13:5 72:13 72:15 76:2 80:22	125:18
right 25:16 37:23 49:20 51:6 52:1 52:23 54:14,15,20 57:10,16,23 58:21 60:6 61:10 64:3 65:20 68:24 71:16 72:9 75:11 78:9 81:18,19 82:1 83:15,17,21 84:13 86:1 89:2,4,11 90:7 92:19,24 94:23 97:22 98:11 98:11 101:13 104:19,25 105:15 105:22 107:5 108:17,21 109:6 109:24 110:15,17 110:17 114:10 118:17	room 16:23 roughly 69:1 rsa 11:17	82:5 84:14,16,18 97:15,24 104:4 120:25	scientific 11:24
	rubric 96:23	salesforce 80:17 81:14,21,23 84:2	scope 118:16
	rudnick 9:1	89:2,5 90:9 91:17	se 61:6
	rule 27:13	salient 13:15	sears 60:9
	ruled 113:24 116:9	sammons 27:19	second 2:1 15:22
	rules 115:20	sanctions 108:15	18:22 22:20 23:21
	run 16:20 94:11	sander 9:11	26:5,21 29:17
	running 96:7	sara 7:23	30:2,25 32:10,13
	runs 99:22	satisfy 43:22	33:15 44:9 49:11
	rush 63:10	savings 62:23	54:19 60:20 63:2
	ryan 27:16	saw 33:2,2 60:6	64:14 66:11 82:8
	s	saying 26:9 31:19 35:1 98:18 107:24	82:16 106:10
	s 5:1,7 10:1 123:3 124:3 125:3,16,16 125:16	says 51:11 66:12 85:6	116:2,4
	s.d.n.y. 117:5 118:11 120:14	scenes 45:6	secondly 115:3
		schedule 23:16	secrete 15:17
		scheduled 63:3 64:16	secretion 18:6
			section 8:15 18:16
			30:20 57:19 94:12
			115:7 116:13,20
			118:4
			secure 16:15 53:9
			secured 61:5
			securing 96:11

[security - sold]

Page 29

<b>security</b> 81:7 92:8 95:17 <b>see</b> 11:8 12:4 16:2 26:22 31:19 32:11 35:14 39:4 47:18 48:17 69:9 101:1 111:20 117:4 <b>seeing</b> 21:18 <b>seek</b> 100:5,15,18 <b>seeking</b> 37:19 64:24 67:4 91:2 100:8 <b>seeks</b> 76:15 <b>seemingly</b> 19:2 <b>seen</b> 42:1 72:21 82:2,5 <b>selected</b> 14:8 27:9 27:10,11 92:14 <b>self</b> 88:14 90:25 <b>sell</b> 12:10 103:25 104:8,13 108:6,7 <b>selling</b> 107:18,19 108:1 <b>sells</b> 72:5 103:14 104:2 <b>senior</b> 69:23,25 70:6,8,10,18 71:8 93:4 114:2 <b>sense</b> 108:1 112:3 <b>sensitivity</b> 105:5 <b>sent</b> 20:5 <b>sentence</b> 22:22 66:11 69:1,8 <b>separate</b> 97:14 100:16 <b>september</b> 50:1 <b>serious</b> 19:4 86:7 86:12 <b>seriously</b> 49:6 <b>serve</b> 13:24 16:8 31:20 32:1 117:18 <b>service</b> 3:2,24 10:15,16 30:18	93:24 94:2 101:25 124:7 <b>services</b> 31:3 93:7 <b>serving</b> 30:16 <b>set</b> 14:19 15:7 21:4 22:16 35:10 37:19 97:23 98:1 114:4 <b>setoff</b> 4:8 122:4 124:16 <b>sets</b> 115:9 <b>setting</b> 120:4 <b>settle</b> 10:12 29:17 <b>settlement</b> 15:5 17:12 20:12 32:24 33:5 34:3,17 35:16,25 36:9 37:13 39:18,23,24 40:1,12,18,21 41:7,8,15,17 46:7 47:5,10 48:14,19 88:21 <b>settlements</b> 48:4 <b>seven</b> 78:24 <b>seventy</b> 95:2,3 <b>severance</b> 64:21 69:2,5,6 75:4 76:16 78:9,10,18 78:24 79:8 93:18 93:19,24 94:2,6 94:14,18 95:11 105:16,18,19,20 105:21,25 106:8 106:13,20,21 107:2,3 109:12 113:5 114:23 115:6,8,12,14,22 115:24 116:7,12 117:13,15,17,20 121:16,24 <b>severe</b> 112:21 <b>severed</b> 94:10	<b>shape</b> 84:9 <b>share</b> 34:10 <b>shared</b> 13:12 21:15 47:4 62:14 <b>shareholder</b> 12:9 12:14 14:4 18:8 18:15 <b>shareholders</b> 11:5 12:3,19,20 13:8 15:11,16 17:3 18:7 19:15,21 20:2,5,10,17 23:3 23:8 <b>sharing</b> 59:4 <b>shaw</b> 6:1 7:7 <b>sheet</b> 11:2,6,11,18 14:2 15:7,18 17:21 32:23 33:2 35:16,20,21 39:24 40:1 41:18,22,25 42:11,20,23 43:16 43:18 <b>sheets</b> 13:14 <b>sheila</b> 4:24 126:3 126:9 <b>shield</b> 27:21 89:14 <b>shipped</b> 59:20 <b>short</b> 36:6,12 45:3 <b>show</b> 50:4 79:9,12 <b>shown</b> 122:4 <b>shut</b> 22:8 <b>shutting</b> 22:1 <b>sick</b> 62:22 <b>side</b> 19:12 36:1 38:22 <b>sides</b> 11:15 <b>sign</b> 63:13 <b>signed</b> 50:15 54:3 <b>significant</b> 40:19 41:6 42:3,9 43:9 <b>similar</b> 13:20 68:14	<b>similarly</b> 82:3 107:12 <b>simply</b> 99:16 121:23 <b>single</b> 19:24 23:14 49:4 <b>sir</b> 65:20 83:17 86:2 87:1 98:20 <b>sit</b> 27:5 39:6 55:1 102:24 110:16 <b>site</b> 92:20 <b>sitting</b> 25:16 <b>situated</b> 37:11,15 <b>situation</b> 19:6,8 62:11 <b>six</b> 17:5 27:7,24 28:1 34:18 37:1 40:6 68:4,11,12 68:18 69:4 81:16 89:20 93:24 94:6 97:1 103:15 115:5 119:9 120:9,25 <b>size</b> 46:12 <b>sizeable</b> 15:1 <b>skelter</b> 23:9 <b>skill</b> 62:12 <b>skilled</b> 95:14 <b>skip</b> 44:10 <b>slated</b> 22:24 <b>sleep</b> 113:1 <b>slightly</b> 71:24 100:1 <b>sliver</b> 12:14 20:5 <b>small</b> 14:19 60:23 63:14 64:15 70:23 88:16 <b>smaller</b> 60:8,9 <b>smartly</b> 21:14 <b>social</b> 31:2,5 <b>society</b> 120:23 121:11 <b>sold</b> 90:4 92:3 104:10 107:15
--	---	---	---

[sold - supplemental]

Page 30

112:15	<b>spent</b> 44:16	<b>stating</b> 34:1	<b>subdivisions</b> 44:8
<b>solution</b> 32:2	<b>split</b> 12:12,23	<b>status</b> 17:16 25:19	<b>subject</b> 51:1 58:18
43:24	21:9	59:22 63:22	60:4 66:17 80:11
<b>solutions</b> 126:21	<b>spoken</b> 106:10	<b>statutory</b> 29:21	86:4 88:13 109:14
<b>solvency</b> 11:22	<b>spread</b> 53:5 54:11	<b>stay</b> 4:7 92:11	110:12 115:15,18
<b>solving</b> 48:5	<b>square</b> 8:8,16	95:12 107:1	115:19 116:1
<b>soon</b> 45:9 64:11	<b>squared</b> 63:1	117:22 124:16	121:1
64:16 111:19	<b>staff</b> 88:1	<b>steel</b> 106:12 116:3	<b>submit</b> 56:16
<b>sorry</b> 23:24 35:15	<b>stakeholders</b>	116:10	<b>substance</b> 39:23
47:19 67:22 69:16	10:13,18 14:19	<b>stem</b> 107:23	<b>substantial</b> 15:11
71:17 74:21 79:16	19:10 22:14 86:11	<b>step</b> 41:18,20	16:17 31:16 40:2
87:23 105:10	<b>stand</b> 65:20	83:17 86:1	40:17 41:9
115:10,10	<b>standards</b> 118:19	<b>stern</b> 8:6 53:25	<b>substantially</b> 11:7
<b>sort</b> 19:16 38:21	<b>standing</b> 36:12	<b>stet</b> 99:18	97:4
39:3 91:6 98:7	<b>start</b> 26:9 37:20	<b>stewards</b> 16:19	<b>substantively</b>
101:14	37:23	<b>stick</b> 113:7	33:15
<b>sotomayor</b> 116:8	<b>started</b> 10:23	<b>stipulation</b> 17:4	<b>succeed</b> 100:14
<b>sought</b> 27:4 31:25	<b>starting</b> 33:16	17:16	<b>successful</b> 42:25
62:7 74:25	<b>starts</b> 69:1	<b>stop</b> 96:19 107:16	64:9
<b>source</b> 42:24	<b>state</b> 2:23 3:2 6:2	<b>stopped</b> 87:13	<b>successfully</b> 96:2
<b>southern</b> 1:2	9:9 13:6 19:17	90:13,15	102:10
<b>space</b> 92:17	21:24 24:20 26:15	<b>straightforward</b>	<b>sufficient</b> 37:13
<b>sparse</b> 75:14	32:21 38:25 47:21	99:16	40:20 41:12
<b>speak</b> 23:25 31:9	47:23 79:19 88:22	<b>strategic</b> 31:17	120:15
53:20 109:15,23	89:14	<b>strategy</b> 95:25	<b>suggest</b> 22:3
114:1,2	<b>stated</b> 21:25 27:14	96:6	118:2
<b>speaker</b> 95:2	29:9 35:18	<b>straus</b> 106:12	<b>suggested</b> 121:21
<b>speaking</b> 44:10	<b>statement</b> 16:4	116:5	<b>suggestion</b> 115:22
<b>special</b> 18:12	19:16 24:2,9 27:2	<b>strauss</b> 7:14 25:11	121:15
<b>specialists</b> 93:13	27:13 29:10 34:7	<b>strawberry</b> 8:16	<b>suite</b> 6:12,20
93:15	<b>statements</b> 21:19	<b>street</b> 1:14 6:4,11	126:23
<b>specialized</b> 76:19	24:13,13,14,17,18	6:20 7:9	<b>sum</b> 116:1
<b>specific</b> 97:22	37:8 111:16	<b>strengths</b> 28:20	<b>summarized</b>
<b>specifically</b> 20:20	121:19	28:21	102:11 116:16
42:20 46:2 95:14	<b>states</b> 1:1 2:21 6:3	<b>stricken</b> 51:8,11	<b>summary</b> 11:2
<b>specifics</b> 67:19,19	6:18 7:8 11:3 12:5	56:10	<b>summation</b> 86:10
<b>spectacle</b> 31:14	13:24 14:18 16:4	<b>strong</b> 19:1 32:6	<b>superintendent</b>
<b>speculation</b> 86:19	27:6 28:11 32:21	<b>strongly</b> 32:2	3:1
<b>speed</b> 17:6 62:5	35:24 36:1,2	<b>structure</b> 14:8,21	<b>supplement</b> 39:11
62:12	38:21,22 39:1,10	16:10,15 40:23	39:14 74:11
<b>spell</b> 65:22 83:2,4	40:3,3 43:3,18	43:6 48:14	<b>supplemental</b>
<b>spend</b> 33:10 34:4	44:5,7 114:15,20	<b>stutzman</b> 9:11	65:9,15 66:5
	120:3		115:2

## [supplementary - think]

Page 31

<b>supplementary</b>	<b>t</b>	<b>tender</b> 12:5 <b>tennessee</b> 6:10 <b>tensions</b> 16:12 <b>term</b> 11:2,6,11,18 13:14 14:2 15:7 15:18 17:21 32:23 33:1 35:16,20,21 39:24 40:1 41:18 41:22,25 42:11,20 42:23 43:15,18 63:13 69:18 78:14 82:25 89:3,4 112:22 113:11 <b>terminated</b> 94:17 <b>terminated</b> 64:22 80:18 81:14 <b>termination</b> 115:25 <b>terms</b> 23:16 37:4 38:12 46:13 52:20 76:15 84:24 102:8 107:7,12 110:20 119:11 <b>territories</b> 11:4 40:3,4 114:15 <b>test</b> 42:18 110:7 115:10 <b>testified</b> 81:13 96:23 109:23 <b>testify</b> 90:15 119:25 <b>testifying</b> 90:6 <b>testimony</b> 66:17 74:6 81:15 86:10 101:8 105:9 106:2 107:8,13 119:12 120:7 121:18 <b>tests</b> 115:10,13 <b>thamila</b> 107:18 <b>thank</b> 30:24 38:5 43:25 44:2,23 48:8 49:8,15 50:9 50:19 52:5 55:3	55:17,17 56:15,22 58:1 60:18 61:15 62:8 66:8,9 68:24 72:9 74:15 75:17 80:8,16 81:10 85:23 86:3 99:10 111:10 112:7 122:15,17,18,21 122:22 <b>theme</b> 62:13 <b>theories</b> 28:19,20 <b>therapy</b> 27:23 59:17 <b>thereof</b> 3:14 123:15 <b>thing</b> 15:22 16:3 17:20 21:17 37:23 45:10 48:12 51:20 61:2 73:8 91:17 94:8 100:1 101:2 <b>things</b> 10:12 13:15 16:23 19:9 29:16 37:1 38:6 85:16,17 101:5,15 106:4,5 112:13 121:4 <b>think</b> 13:20 16:9 18:21 24:24 25:4 27:25 30:15 33:12 35:7,21 36:5,8 38:13,22,24 39:4 39:12 44:13 45:5 45:18,23 46:19 47:8 48:20,25 49:5 51:11,14 53:21,22 54:3 56:10 60:22 64:11 65:4 69:19 70:21 71:23 73:11,20 75:1 77:13 82:6 86:7 88:25 89:2,8 89:9,11,18 90:16 90:22 91:8 95:17
<b>support</b> 13:21 37:8 40:2,12,18 42:7,12 43:24 44:14 <b>supported</b> 12:15 110:14 114:6 <b>supporters</b> 38:23 <b>supporting</b> 11:3 32:20 43:10,18 119:4 <b>supportive</b> 39:17 43:4 <b>supposed</b> 109:17 110:5,6 <b>sure</b> 10:6 11:14 13:12 14:11 24:12 25:6 45:17 51:8 53:18 54:4,21 59:4 60:8,14 61:7 64:21 72:21 73:16 75:1 77:14 79:1 82:25 83:1,5 84:7 87:5,8,17 89:13 90:7 95:1 97:18 98:8,9 101:10,12 101:13 102:21 103:1,3 104:5 105:4,10 108:18 111:7 112:10 120:20 121:20 <b>surety</b> 3:19 55:7 56:13 123:19 <b>surety's</b> 55:8,19 56:4 <b>surprise</b> 109:24 <b>swibel</b> 54:1 <b>sworn</b> 65:21 <b>sympathy</b> 23:13 <b>syndrome</b> 27:19 <b>systems</b> 27:23 59:17	<b>t</b> <b>t</b> 125:16 126:1,1 <b>tailored</b> 119:8 <b>take</b> 34:14 36:6 36:24 46:8,8 90:5 90:7,23 111:16 <b>taken</b> 10:21 36:23 101:19 111:12 120:4 <b>takes</b> 33:5 <b>talented</b> 95:14 <b>talk</b> 29:16 44:15 68:10 89:4,5,5 <b>talked</b> 35:16 <b>talking</b> 31:2,5 44:16 46:17 68:11 70:25 77:25 78:1 82:7 85:2,18 89:1 89:19 105:7 <b>targeted</b> 101:7 <b>targets</b> 47:7 <b>task</b> 46:5 <b>tax</b> 13:9 19:15,15 20:3,4,9,10 21:4,6 21:9,10 56:8 <b>taxes</b> 3:7 49:24,25 50:11,12,25 123:7 <b>taxing</b> 19:17 <b>team</b> 25:2 <b>technical</b> 93:6 <b>technicians</b> 93:14 <b>telephonically</b> 9:7 <b>tell</b> 25:14 122:19 <b>telling</b> 38:12 102:24 <b>tempted</b> 111:15 <b>ten</b> 69:16,17,19,21 69:25 71:13,21,22 71:22,23 72:17 73:6,13,16,17 74:17,24 75:4,19 76:11 105:17 114:25	<b>tender</b> 12:5 <b>tennessee</b> 6:10 <b>tensions</b> 16:12 <b>term</b> 11:2,6,11,18 13:14 14:2 15:7 15:18 17:21 32:23 33:1 35:16,20,21 39:24 40:1 41:18 41:22,25 42:11,20 42:23 43:15,18 63:13 69:18 78:14 82:25 89:3,4 112:22 113:11 <b>terminated</b> 94:17 <b>terminated</b> 64:22 80:18 81:14 <b>termination</b> 115:25 <b>terms</b> 23:16 37:4 38:12 46:13 52:20 76:15 84:24 102:8 107:7,12 110:20 119:11 <b>territories</b> 11:4 40:3,4 114:15 <b>test</b> 42:18 110:7 115:10 <b>testified</b> 81:13 96:23 109:23 <b>testify</b> 90:15 119:25 <b>testifying</b> 90:6 <b>testimony</b> 66:17 74:6 81:15 86:10 101:8 105:9 106:2 107:8,13 119:12 120:7 121:18 <b>tests</b> 115:10,13 <b>thamila</b> 107:18 <b>thank</b> 30:24 38:5 43:25 44:2,23 48:8 49:8,15 50:9 50:19 52:5 55:3	
		55:17,17 56:15,22 58:1 60:18 61:15 62:8 66:8,9 68:24 72:9 74:15 75:17 80:8,16 81:10 85:23 86:3 99:10 111:10 112:7 122:15,17,18,21 122:22 <b>theme</b> 62:13 <b>theories</b> 28:19,20 <b>therapy</b> 27:23 59:17 <b>thereof</b> 3:14 123:15 <b>thing</b> 15:22 16:3 17:20 21:17 37:23 45:10 48:12 51:20 61:2 73:8 91:17 94:8 100:1 101:2 <b>things</b> 10:12 13:15 16:23 19:9 29:16 37:1 38:6 85:16,17 101:5,15 106:4,5 112:13 121:4 <b>think</b> 13:20 16:9 18:21 24:24 25:4 27:25 30:15 33:12 35:7,21 36:5,8 38:13,22,24 39:4 39:12 44:13 45:5 45:18,23 46:19 47:8 48:20,25 49:5 51:11,14 53:21,22 54:3 56:10 60:22 64:11 65:4 69:19 70:21 71:23 73:11,20 75:1 77:13 82:6 86:7 88:25 89:2,8 89:9,11,18 90:16 90:22 91:8 95:17	

[think - two]

Page 32

103:19 106:2,5,7 106:17 107:16 108:9,12,12,19 109:22 111:11,17 112:3 113:6,12,23 113:24 114:6 119:19 120:18 122:20 <b>thinking</b> 77:15 80:17 81:5 <b>thinks</b> 34:12 <b>third</b> 4:6 26:22 32:14 34:25 35:14 37:17 39:5,6 40:9 44:11 46:11 124:14 <b>thoroughly</b> 47:12 <b>thought</b> 48:21 51:14 71:8 110:1 <b>thoughts</b> 45:16 <b>thousands</b> 14:17 23:14 40:8 <b>three</b> 10:25 11:16 20:7 30:1 32:11 36:3 38:18 94:2 95:2,3 <b>tie</b> 104:4 <b>tied</b> 67:18 121:10 <b>time</b> 11:10 14:25 25:25 27:9 29:19 30:11 33:4,6,10 33:13 34:14,15,16 36:6,13 37:8 39:5 42:13 44:14 47:3 49:2 54:22 63:6 65:13 73:15 75:25 77:13,14 80:2 85:15 100:5 106:16 111:17,17 112:8 116:1 <b>times</b> 8:8 41:16 86:19 102:5	<b>timing</b> 15:17 <b>tiny</b> 19:15 38:6,20 <b>tireless</b> 62:10 <b>title</b> 70:17,19,24 93:5 96:21 117:8 <b>titles</b> 70:21 <b>tobacco</b> 15:5 <b>today</b> 17:17 20:18 21:24 44:12,16 49:12 50:16,22 62:20 63:24 64:24 65:8,11 67:5 74:25 85:17,17 86:5,9,16 87:15 91:7,22 100:3,7 114:13,19 122:11 122:20 <b>today's</b> 24:7 45:2 48:7 <b>tomorrow</b> 17:18 26:24 37:7 44:13 44:15,22 47:13 <b>tomorrow's</b> 17:8 45:9 <b>tool</b> 31:17 <b>top</b> 56:8 77:6 80:1 94:25 117:20 <b>topic</b> 76:19 113:23 114:7 <b>total</b> 12:21,22 20:9 21:7,7,8 92:25 93:1 94:24 96:25 <b>totaled</b> 21:5 <b>totals</b> 94:16 <b>touch</b> 72:15 82:12 <b>touching</b> 76:2 <b>towns</b> 28:12 <b>tracey</b> 4:24 126:3 126:12 <b>trade</b> 27:22 29:14 82:14	<b>traditional</b> 46:23 <b>tragedy</b> 23:17 <b>trainer</b> 27:19 <b>transcribed</b> 4:24 <b>transcript</b> 126:4 <b>transfer</b> 4:10 18:14 20:6 22:25 23:7 124:19 <b>transferee</b> 18:18 <b>transferees</b> 18:17 18:20,20 <b>transferred</b> 11:21 22:25 40:23 <b>transfers</b> 2:10 3:9 3:16 4:15 18:19 21:2 24:11 123:9 123:16 124:25 125:12 <b>transition</b> 92:5,12 92:13,23 95:8,12 <b>transitioning</b> 91:25 <b>translate</b> 28:23 <b>transparency</b> 20:19 <b>tread</b> 16:9 <b>treatment</b> 41:3 112:23 <b>tremendous</b> 34:2 <b>treyburn</b> 64:5,25 78:8,13,15,16,18 78:19 79:3,20,21 79:24 80:25 81:2 81:6 88:1 91:24 92:1,3,10,15,18 93:11 94:16,21 95:10,20 105:2,12 105:18,21 106:16 113:8 114:23 117:12,14 <b>tribes</b> 9:12 28:13 40:4,8	<b>tried</b> 11:12 <b>troop</b> 6:7 7:12 44:3,4 83:18,22 83:25 85:9 125:20 <b>true</b> 13:13 20:8 23:17 24:18 84:20 98:13 120:7 126:4 <b>truly</b> 62:12 <b>trustee</b> 6:18,19 13:24 27:6 47:20 50:14,19 52:11 57:5 58:10 59:15 62:4 65:3 94:9 105:1 111:4 115:3 119:3,5,24 121:21 <b>trustee's</b> 24:6 29:21 65:17 66:4 110:18 114:20 121:14 122:8 <b>trustees</b> 14:7 <b>truth</b> 91:9 <b>try</b> 39:11,22 86:14 <b>trying</b> 29:15 31:13 35:2 84:1 88:21 89:5,8,13 91:12 95:12 103:17 113:2 <b>tuesday</b> 11:7 39:25 <b>turn</b> 21:17 23:20 43:20 49:11 56:23 61:16 78:5 86:9 91:20 95:20 100:10 106:6,7 <b>turned</b> 12:1,18 100:8 112:1 <b>turning</b> 18:22 <b>tussling</b> 16:24 <b>twisted</b> 112:1 <b>two</b> 10:16 19:20 25:13,15 27:6,16 27:17,22 32:15 33:3,7 35:25 36:6
--	---	---	---

36:13 38:6,20 46:1,4 49:13 52:12 60:25 62:9 63:25 71:2 91:21 94:1 95:18 106:1 106:5 114:20 115:10,10,23 119:2 <b>type</b> 27:15 28:6 30:21 42:1 45:12 101:24 <b>types</b> 34:6,7 46:19 <b>typically</b> 76:25 81:22	<b>unceasing</b> 10:20 <b>unclear</b> 74:23 <b>uncontested</b> 23:21 48:9 49:12 49:23 50:11,16,21 59:8 62:24 <b>underlying</b> 118:9 118:12 <b>undermined</b> 31:12 <b>understand</b> 23:13 27:4 33:19 35:19 47:21 60:14 62:5 78:6 83:1 85:8 89:15,17 105:11 105:15 106:11 112:10 <b>understanding</b> 61:1 78:6 79:5 87:10 88:9 90:6 <b>understands</b> 54:21 <b>understood</b> 98:17 <b>undertake</b> 112:9 113:13 <b>undertaken</b> 42:4 <b>undertaking</b> 64:3 92:12 <b>undertook</b> 116:15 <b>undoubtedly</b> 42:5 <b>undue</b> 117:16 <b>unequivocally</b> 35:18 <b>unfortunate</b> 29:3 <b>unfortunately</b> 22:2 <b>unidentified</b> 48:8 95:2 <b>union</b> 116:5 <b>united</b> 1:1 6:18 12:5 13:24 27:6 44:7 114:20	<b>unnecessary</b> 29:8 62:16 <b>unopposed</b> 57:17 58:22 114:19 117:10 <b>unpaid</b> 94:7 <b>unprecedented</b> 88:13 <b>unsecured</b> 7:2,15 15:25 16:5,16,21 25:12,25 26:11 29:12,14,24 31:21 34:16 37:16 62:3 62:18 <b>unsigned</b> 35:21 <b>unspoken</b> 29:2 <b>unthinkable</b> 23:19 <b>unusual</b> 13:22 16:6,10,11,14 45:4,10 <b>unusually</b> 16:17 63:3 <b>update</b> 17:15,18 44:19 <b>urged</b> 43:13 <b>use</b> 31:17 46:19 46:21 48:1,14 84:5 85:6 89:6 91:17 99:23 <b>useful</b> 39:13 <b>user</b> 90:19 <b>ust</b> 2:12,15,18,24 <b>utilities</b> 3:23,24 56:24,25 57:16 124:6,8 <b>uzzi</b> 5:25	<b>valuable</b> 11:24 22:16 46:10,10 <b>valuation</b> 13:12 <b>valuations</b> 46:16 <b>value</b> 10:17,18 13:11 14:10,25 22:13,14 23:5,9 23:19 33:20,24,25 34:3,10,24 37:14 41:11 68:8 86:23 95:15 113:19,20 <b>van</b> 8:20 111:1,2 111:10 <b>vandermeuse</b> 9:9 <b>varick</b> 6:20 <b>varies</b> 77:5 <b>variety</b> 20:21 39:22 87:12 <b>various</b> 10:22 21:18 37:12 46:11 47:23 48:17 65:6 <b>vast</b> 13:22 <b>vehemently</b> 35:24 44:17 <b>vehicle</b> 43:7 <b>veil</b> 18:15 23:6 <b>vendor</b> 59:9,16 61:3 <b>vendors</b> 4:14 59:10 124:23 <b>verify</b> 41:13 <b>veritext</b> 126:21 <b>versus</b> 61:7 <b>vetted</b> 24:15 42:18 47:12 <b>vice</b> 69:3,5,12,13 69:15,23,25 70:4 70:6,8,10,13,17 70:18,18,19,23 71:1,3,8,14,18 76:15,17,22 77:3 77:8,11 93:21,22 94:1 109:12
<b>u</b> <b>u</b> 83:5 123:3 124:3 125:3 <b>u.s.</b> 1:13,24 6:19 22:12 24:5 29:21 47:19 50:13,19 52:11 57:5 58:9 59:15 62:4 65:3 65:17 66:4 94:9 105:1 110:18 111:4 115:3 119:3 119:5,24 121:14 121:21 122:8 <b>ucc</b> 11:16 16:20 16:24 17:2,23 25:6 50:19 52:11 58:10 59:15 111:5 <b>ucc's</b> 16:3 36:20 <b>ultimate</b> 11:23 13:3 16:19 <b>ultimately</b> 38:11 38:18 39:25 42:25 43:5 47:4 48:2 49:5 76:23 89:18 119:2 <b>unable</b> 37:14 <b>unanswered</b> 74:9 <b>unaware</b> 18:25	<b>v</b> <b>v</b> 116:5 <b>vacation</b> 62:22 <b>vague</b> 73:11 <b>validity</b> 106:12		

[vice - wrongdoing]

Page 34

110:10 113:25 <b>victim</b> 31:1 35:10 <b>victims</b> 26:16 <b>view</b> 38:11 39:2 <b>views</b> 16:4 28:20 28:23,24 30:6 <b>virtually</b> 15:22 <b>voice</b> 14:5 31:9 <b>voidable</b> 18:19 <b>volume</b> 85:21 <b>voluntarily</b> 23:3 87:13 <b>voluntary</b> 13:2 <b>vonnegut</b> 5:9 21:18 49:10 61:17 61:20,21 66:16 73:10 74:5,14,23 75:8,10 80:5,7 81:11 85:11,14,24 86:3 87:1,5,8 88:7 91:11,24 94:21,24 95:3,6,22 97:18 97:22 98:8,11,17 98:20 99:10,15 100:21,24 102:4 108:20 112:7 122:15,18,22 125:19,21 <b>vote</b> 14:5 <b>vp</b> 77:5 <b>vps</b> 77:6	<b>walter</b> 27:19 <b>want</b> 23:24 24:8 27:1 31:11 32:1 38:15 39:2 41:21 43:12 48:20 51:22 54:21 62:8 63:9 63:10 64:20 65:14 69:17 71:25 86:5 86:17 87:8 88:7 90:6 91:6 94:8 96:15 99:24 101:3 101:11 102:17,21 103:1 105:10 109:9 111:6 112:17 119:2 120:20 <b>wanted</b> 24:7,16 24:20 45:16 52:18 60:16 64:17 71:3 <b>wants</b> 33:9,11,12 39:4 99:1 <b>wardlow</b> 19:14 <b>wardwell</b> 5:2 10:8 49:17 55:4 61:21 <b>warehousing</b> 92:17 <b>warp</b> 62:5 <b>warrant</b> 121:22 <b>warranted</b> 108:13 111:18 119:6 <b>wasting</b> 62:15 101:10 <b>watch</b> 101:12 <b>way</b> 17:1 29:4 31:13 32:11,16 35:3 36:8 37:15 38:2,14 42:16 45:20,21 83:8 85:7 92:19,24 93:20 119:13 120:22 122:4 <b>ways</b> 112:1	<b>we've</b> 37:1,3,10 38:3 62:7,19 99:25 101:2,13 <b>weak</b> 110:20 <b>weaknesses</b> 28:20 28:21 <b>week</b> 11:1 39:24 <b>weekend</b> 27:13 <b>weeks</b> 10:19 27:7 38:18 39:20 94:2 94:3,4 <b>went</b> 32:19 <b>west</b> 6:4 7:9 27:21 <b>westchester</b> 55:11 <b>wheel</b> 39:6 <b>whispered</b> 102:11 <b>white</b> 1:15 <b>wholesaler</b> 84:21 90:4 96:11 101:24 <b>wholesalers</b> 67:19 82:7,9,11 88:6 89:24 99:3 120:11 <b>wholly</b> 17:14 62:24 <b>wide</b> 20:21 93:19 97:19 104:14,16 114:25 <b>williams</b> 4:24 126:3,12 <b>williamson</b> 6:15 <b>willing</b> 60:15 <b>willy</b> 30:22 <b>winthrop</b> 6:1 7:7 44:4 <b>wisconsin</b> 6:13 9:9 <b>wisely</b> 48:1 <b>withdraws</b> 110:21 <b>withhold</b> 121:24 <b>witness</b> 24:20 65:21,24 72:6 74:12 81:19,22 82:2 83:3,5,7,14	107:7 109:14,22 125:17 <b>wondered</b> 53:23 <b>wood</b> 17:7 <b>word</b> 37:22 111:25 <b>words</b> 30:1 118:18 <b>work</b> 10:11,16 11:1,14 17:3 20:7 33:17,18 35:19,23 37:25 38:17 40:19 45:6,8 47:11,25 50:17 62:3,11,14 64:10 67:8 81:15 82:19,22 113:10 113:16,17 119:16 <b>worked</b> 41:17 <b>worker's</b> 62:22 <b>workers</b> 2:8 62:23 95:14 116:6 125:10 <b>workforce</b> 63:1 86:19 <b>working</b> 27:7 37:1 37:3,18 49:19 50:20 62:4,6 67:19,20,21,23 78:1 82:9,11,13 86:21 99:2 101:2 101:14,17 120:10 <b>works</b> 103:2 <b>world</b> 12:3 <b>worldwide</b> 12:5,7 <b>worth</b> 10:19 11:25 13:3,8 22:9 104:1 <b>would've</b> 45:3 <b>writes</b> 67:1 <b>writing</b> 39:19 <b>written</b> 102:7 <b>wrongdoing</b> 73:22,24
<b>w</b>			
<b>w</b> 65:24 125:16 <b>wages</b> 2:4 61:17 61:24 62:18,21 114:9 125:6 <b>wait</b> 64:12 66:18 <b>waiting</b> 64:18 <b>waive</b> 100:5 <b>waiver</b> 100:11 <b>walk</b> 82:24 97:11 <b>walks</b> 83:9	<b>watch</b> 101:12 <b>way</b> 17:1 29:4 31:13 32:11,16 35:3 36:8 37:15 38:2,14 42:16 45:20,21 83:8 85:7 92:19,24 93:20 119:13 120:22 122:4 <b>ways</b> 112:1		

[x - zero]

Page 35

x
<b>x</b> 1:4,10 123:1 124:1 125:1,14
<b>xr</b> 96:1 98:14
y
<b>y</b> 83:5 <b>yards</b> 5:22 <b>yeah</b> 26:6 54:5 60:24 61:4 70:17 71:12 78:4 83:5,7 90:2 102:19,21 109:1,8 <b>year</b> 20:21 21:2,5 21:6 46:15 53:1 69:6 93:25 94:2,7 <b>years</b> 20:9,16 21:3 34:4,4 41:5 69:3,6 93:24,25 <b>yesterday</b> 21:24 <b>york</b> 1:2,15 3:2 5:5,5,15,15,23,23 6:5,5,21,21 7:10 7:17 8:9
z
<b>zero</b> 12:19